



Prime Minister

(2)

Mrs 21/10

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✓ J. Vereker
A. Duquid
A. Walters

PRIME MINISTER

ms

BL DISPUTE

Sir Michael Edwardes reported to me on 19 October on the industrial relations situation in BL.

2 On the threatened strike, Sir Michael said it was unlikely that BL would attempt a ballot. He is proposing to say nothing at all this week, although he will attempt privately to influence editors and will respond to any approach from Messrs Duffy and Kitson. In the week beginning 26 October he would aim to make one major exposition of BL's position, perhaps by an extended interview on television. He would write to all employees (on about 28 October) with a final warning that those not reporting for work on 2 November would be dismissed. Those not reporting would then be sent a letter of dismissal, probably on Tuesday 3 November. Up to Wednesday or Thursday of that week, BL would still be able to respond to a major climbdown by the unions or workforce; thereafter the process of dissolution would be irrevocable.

3 BL would attempt to keep open any plants where sufficient workers reported for duty. If a large number at any plant

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remained on strike, however, it would be necessary irrevocably to close that plant. Longbridge and Cowley would probably be among the first to be closed. The Board would attempt to keep going the Leyland Group (which has accepted a 4% pay offer). It might be possible to keep Land Rover and Jaguar operating, or to sell them to new owners. It was most unlikely that the volume cars business could be sold, given the extent of over-capacity in the industry. The effect of a major strike would, therefore, be the permanent closure of the greater part of BL.

4 Sir Michael remains willing to respond to an approach from the unions for further talks, as long as there are not strings attached. He told me that the unions broke off negotiations before the full negotiating procedure had been exhausted and before BL had made an offer on the incentive scheme, on which certain adjustments - costing very little - had been authorised by the BL Board. He will not, however, volunteer any discussions at this stage, in case this should be interpreted as a sign of weakness.

5 Sir Michael accepts that the terms of his undertakings to us in January oblige him to withdraw the Corporate Plan in the event of a major strike; that he cannot recommend a revised Corporate Plan unless it offers a prospect of recovery; and that in any case he cannot seek extra Government money for BL. He considers that once a major strike starts, it will be impossible for the

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company to become viable again and that the sooner the logic is carried through to effective liquidation, the better. Sir Michael considers that the decision whether and when to proceed to irrevocable closure now lies with him and with the BL Board.

6 The consequences of closure are grave. My officials are working with BL and with the Treasury, Department of Employment and Bank of England officials to bring existing contingency plans to a high state of readiness. I intend to keep in close touch with Sir Michael and I plan to meet him again, probably on 26 or 27 October.

7 Sir Michael has asked that Ministers should avoid all public comment on the detailed implications of the threatened strike and on the extent of consultation between BL and the Government. I entirely agree. Our line should be that these matters are for the BL Board to handle within the broad framework of its relationship with the Government and the published understandings about the circumstances in which BL would withdraw its Plan. It is essential to avoid comments which would lead to a politicisation of the strike.

8 The BL Board have decided that they can recommend the continued operation of the Leyland Group (ie BL's bus and truck operations) only on a reduced scale. It is therefore possible that in the course of the next week or so Sir Michael will need to say something in public about substantial redundancies in the

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Leyland Group, both at Bathgate in Scotland and at Leyland in Lancashire. Sir Michael accepts that we have yet to consider this proposal, but considers that it may be necessary for him to mention the Board's decision, either privately to Duffy and Kitson or possibly publicly. As early remedial action in the Leyland Group is necessary, I do not think it right to dissuade Sir Michael from this course of action, although it may have consequences for our own consideration of the Leyland Group proposals.

9 I am sending copies of this minute to the Chancellor, the Secretary of State for Employment and to Sir Robert Armstrong and Robin Ibbs.

PJ

P J

Department of Industry
Ashdown House
123 Victoria Street

21 October 1981

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TELEPHONE
01-488 8000

RECEIVED 35-38 PORTMAN SQUARE
OFFICE FOR
INDUSTRIES OFFICE LONDON W1H 0HQ

FROM SIR MICHAEL EDWARDES

131 Y 20 20th October 1981
15:57

The Rt.Hon. Patrick Jenkin, MP,
Secretary of State for Industry,
Ashdown House,
123 Victoria Street,
London SW1.

CONFIDENTIAL

New Secretary of State

TO Mr. Bowden	COPIES TO
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE)	PS/NL PS/JU PS/Sec
PLEASE BY:	Mr. Haughey Mr. Howelfield
ASAP	

BL CARS STRIKE: CONTINGENCY PLANS

Further to our meeting yesterday, there is one aspect of our contingency planning on which I need to write to you formally, so that the procedures agreed between BL and Government in 1980 to deal with a major closure or liquidation can - if necessary - be activated.

As you know, the BL Board's primary objective is to save the whole of BL by persuading our employees that it is in their interests to stay at work. However, if we do not succeed and are faced with a widespread and damaging strike, it is our firm intention to carry through the actions set out in my letter of 12th October to the trade union leaders - i.e. to dismiss the strikers and liquidate the assets of those parts of the business which are on strike or prevented from working. It is my understanding from our discussions that you are fully in support of the Board's position.

Clearly we cannot forecast precisely in advance the situation which will confront us on 2nd November - unless, of course, there is an agreed settlement before the strike notice takes effect. But there is no doubt that, in the light of the Board's declared intention to dismiss strikers rather than withstand a lengthy stoppage, any substantial withdrawal of labour will cause a major loss of confidence on the part of the company's bankers and other creditors - whether or not it proves possible to save the bulk of the business subsequently.

Continued

The Rt.Hon. Patrick Jenkin, MP,
Secretary of State for Industry.

20th October 1981

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For this reason, there are long-standing contingency arrangements for Government guarantees to be made available at short notice to secure BL's existing borrowings and short-term facilities. This action might be accompanied if necessary by reaffirmation of Government assurances to our other creditors and by a statement indemnifying the Board against liability for any trading in contravention of section 332 of the Companies Act. I must emphasise that these measures would be required, not to continue the business indefinitely against a strike, but to provide time to implement the closure/disposal of the relevant parts of the business in the most orderly fashion possible - thus helping to minimise the immediate financial consequences for the Government.

I am therefore giving you notice that, in the circumstances outlined above, we may need Government guarantees to be provided to our lenders on 2nd November. Your officials have been supplied with a list of the borrowings and facilities which may require guarantees. In addition, BL staff are in touch with your officials about the steps which might be needed to reassure other creditors and secure the position of the Board.

After our Board meeting on 27th October, I shall, if necessary, request these guarantees formally on behalf of the Board, subject, of course, to final confirmation on 2nd November. In the meantime, BL staff will, of course, be available to assist your Department with any information needed to set in hand these arrangements.

Yours Sincerely,
Michael S. James.

TELEPHONE
01-486 6000

35-38 PORTMAN SQUARE

LONDON W1H 0HQ

FROM SIR MICHAEL EDWARDS

12th October 1981

MEMORANDUM

Mr. T. Duffy
President, AUEW

Mr. A. Kitson
Acting General Secretary, TGWU

copy: The Rt.Hon. Lionel Murray, OBE,
General Secretary, TUC

I am copying this memorandum to the General Secretary of the TUC because - although most of our employees are represented by the TGWU and AUEW - there are other unions involved.

The BL Board meets on Wednesday 14th October to consider the 1982 Corporate Plan, covering the major investment on LC10 and the funding of the next five years. On Friday, 16th October the various unions in BL will be holding mass meetings to recommend an all-out strike (on the wage offer) which embraces the Cars Group, Unipart and Land Rover, effective 1st November. Although Leyland is not involved - the wage offer having already been accepted by a mass meeting at Leyland Lancs - a major strike would impact on its future, too.

Following discussions with my fellow directors, we feel it only right and proper to let you know the course of action which the Board would take in the event of a strike call being widely supported or effective. As mass meetings have been called for Friday in all our car plants, knowledge of the following facts may enable you to intervene, and impact favourably upon the jobs of over 100,000 people in BL, plus the many others who depend indirectly upon BL for their jobs.

Continued

Mr. T. Duffy
Mr. A. Kitson

cc The Rt. Hon. Lionel Murray, OBE.

12th October 1981

2.

These are not new jobs that need to be created - they are factories already in existence which employ people now.

The facts are as follows:-

1. Your colleagues have claimed a £20 per week increase and other substantial benefit improvements.
2. It has been argued that Cars employees have accepted low figure wage settlements for the past three years and that we should invest in people as well as new plant and products. All that is true but there have also been substantial parity payments to most plants and in the past year there have been very reasonable earnings through the productivity bonus scheme. In the period since 1st November 1980, average 40-hour earnings of the hourly-rated workforce have gone up by more than 13%.
3. We cannot afford to increase our unit labour costs, for we will lose hundreds of millions this year as it is. Nevertheless, BL Cars has stretched itself to offer grade rate increases of between £3 and £4 per week, and has declared its intention to do everything it can to ensure that employees increase their bonus earnings.
4. Even if our unit costs were competitive, which they are not, our financial situation this year would preclude our meeting the claim. In no circumstances can we use funds earmarked for our new product programme to pay wage increases unless, of course, they are funded from production performance.

Continued

Mr. T. Duffy
Mr. A. Kitson

cc The Rt. Hon. Lionel Murray, OBE.

12th October 1981

3.

5. To stand a widespread strike from 1st November is not a viable option because:-

5.1 We are not prepared to recommend the Plan and its funding implications to Government without the support of our workforce. Indeed the Board's position in the event of a major strike is already on public record in my letter of 26th January 1981 to the Secretary of State for Industry; "Circumstances may arise in which, through a substantial deviation in performance or an appreciable departure from the assumptions underlying it, the Corporate Plan is clearly not being achieved and it appears impossible to bring about recovery within the timescale envisaged. This could arise for external or internal reasons; an example would be a major strike which damaged or appears certain to damage any substantial sector of the business. In such circumstances the Board would in accordance with Section 1 of the Plan, very quickly initiate a review (in consultation with the Government) of the Plan of the relevant business group, with consequent implications for continued Government funding."

5.2 We cannot stand a widespread damaging strike for even a few days, without prejudice to our investment programme - quite apart from the damage to us in the market place.

The Plan does indicate light at the end of the tunnel but it will surprise no-one who follows our fortunes to know that our cash flow is too fragile to survive the implication of heavy additional and unbudgetted costs.

Continued

Mr. T. Duffy
Mr. A. Kitson

cc The Rt.Hon. Lionel Murray, OBE

12th October 1981

4.

6. It follows that, if the Board judges at its further meeting on 28th October that there is widespread support for effective and financially damaging strike action it would have no alternative but to decide not to proceed with our 1982 Plan, which is due to be submitted to the Government at the end of October. If such a strike materialises, we will have no option but to:-

- 6.1 hold those on strike to be in breach of their employment contracts - their employment would subsequently be terminated and in these circumstances they would not be entitled to any redundancy payments or payment in lieu of notice; and
- 6.2 consult the Government on the steps which would be needed to liquidate those parts of the business within the Cars bargaining unit which are on strike or prevented from working. We doubt whether the Leyland truck and bus operations could be isolated from the chaos that would ensue.

The Board intends to give these facts to all affected employees on Wednesday 14th October to outline the inevitability of events following widespread strike action. These facts would, of course, have to be made public at about the same time. We will not publish the facts or this letter until that time.

Continued

Mr. T. Duffy
Mr. A. Kitson

cc The Rt.Hon. Lionel Murray, OBE

12th October 1981

5.

If you are successful in any intervention, I will then recommend to my Board that we should pursue the recovery plan, with the heavy investment required to complete the product-led recovery that has begun with Metro and Acclaim. I cannot be sure that the Board will feel able to back it, but positive support from the workforce would obviously be an important factor. On the other hand we cannot face yet another crisis with weeks of uncertainty.

Please accept that we write in these terms only because in all conscience we feel we must - it would be quite wrong in our view to have our workforce vote on Friday 16th on such a fundamental issue, without their knowing the full facts and the full implications.

If you require any elaboration, please let me know.

Yours sincerely,
Michael J. Davies