

PRIME MINISTER

Policy Unit
20 April 1982

BL'S FUTURE STRUCTURE

Analysis

The Policy Unit starts from the basic proposition that BL will never be commercially viable. We therefore think that the Government's objective should be "privatisation or close", i.e. privatise as much of BL as possible, and make it clear to those in charge of BL that the alternative is closure: without that alternative, the objective will not be persuasive.

We agree with the Consultants' report (which in this respect seems to be common ground with BL management) that the best prospects for privatisation are - in order - Land Rover; | BL Trucks; | Jaguar; | Unipart. | We believe - and indeed we have always argued - that the only future other than closure for the volume car business, and indeed for Jaguar, is some sort of joint venture, probably amounting in the case of volume cars to partial sale. We do not think Ministers should ever be seduced into believing that further injections of capital could create a viable volume car business: the market is simply too small.

We know that the financial situation of BL is likely to be worse than Sir Michael Edwardes is at present admitting. BL has been financing its recent losses out of capital released from the contraction of its business. If business did pick up as forecast, BL would soon run into a serious cash flow problem. And in his latest note Patrick Jenkin refers to the possibility of a sudden collapse in the UK car price level, showing that BL is even less competitive than we had realised.

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Strategy

Therefore, we believe that our strategy must be to find a chairman and the structure most likely to lead to maximum privatisation, the quickest sale of appropriate parts to collaborative partners, and eventual closure of the totally unviable parts, all at minimum Government cost. This is a role more suited to a receiver than to a go-getting industrialist. It is a strategy of orderly withdrawal, which recognises both the political impossibility of early closure of the volume car business, on which depend perhaps 200,000 jobs, and the fact that much of BL, notably commercial vehicles, the dealerships, Land Rover and Jaguar, are only suffering from neglect and could survive.

We agree with Patrick Jenkin that the first stage in this strategy is to tell BL they can't have the extra £150 million, and must realise Land Rover to finance the rest of the business, although we doubt that LR could provide anything like that, however the sale is managed. But we see that as additional to, not a trade off for, having our way (rather than Michael Edwardes') on structure.

Structure

Measured against the criterion of orderly withdrawal, the case for and against the BL Board's proposal for a split into two companies looks as follows:

1. The case for splitting

The Consultants identified three arguments:

- (a) it is easier to manage two problem companies than one;
- (b) one company would be less vulnerable to a financial crisis in the other;
- (c) it would solve the problem of a successor to Michael Edwardes, since two part-time chairmen and two full-time executives are already identified.

In addition to these arguments put forward by CCG, the Policy Unit also recognises that splitting BL into two companies would lower the profile of the business, thus making it easier for the Government to take politically difficult decisions about the future of the constituent parts.

2. The case for a unitary structure

Again, the Consultants identified three arguments:

- (a) the issues facing BL are so large that two part-time chairmen could not possibly tackle them;
- (b) there will be recurrent crises which require maximum flexibility of response, which would not be available within smaller businesses;
- (c) and crucially, privatisation would be easier: the narrower the portfolio, the larger the impact of privatisation on the residue, and the less the ability to respond flexibly.

In addition to these arguments, the Policy Unit considers that, first, a unitary structure offers the best chance of attracting a new chairman dedicated to the strategy of orderly withdrawal that we favour; and second, that

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it would avoid the delay, which would inevitably follow the establishment of a totally new structure, in making the kinds of politically difficult decisions which will be needed after the Election.

We think the balance of argument lies in favour of retaining the present unitary structure. *

* we think that the new teams he proposes for the two sub-divisions of BL would be most unlikely to be committed to a run-down strategy; and we think we should face up to the need to recruit a new chairman for BL who would be more akin to a receiver or an undertaker than to a successful entrepreneur.

~ Passages deleted and closed, 40 years,
under FOI Exemption.

Wayland

13 September 2012

Wayland

From: S R Douglas, Assistant Private Secretary

For BL [unclear] ..
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cf JV.
Ind Pst.
P. 9.



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Minister of State
for Defence Procurement

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D/MIN/TT/1/6

20 April 1982

Dear Michael,

FUTURE STRUCTURE OF BRITISH LEYLAND

Lord Trenchard, who is dealing with this matter on behalf of the Secretary of State for Defence, has seen the Secretary of State for Industry's note to the Prime Minister of 16th April. Lord Trenchard would like to endorse Mr Jenkin's point about the importance of the continuity of supply of Land Rovers for defence purposes. The Army is a large purchaser of Land Rovers and will continue to need Land Rovers for the foreseeable future - though no guarantees can be given about the future levels of orders.

We would be grateful if the Ministry of Defence could be kept in touch with developments on this issue.

Copies of this letter go to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Trade and Employment and to Sir Robert Armstrong and Mr Ibbs.

Yours sincerely,

Stephen Douglas

Michael Scholar Esq

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Minister of State
for Defence Procurement

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SECRET



10 DOWNING STREET

Prime Minister

You may like to refresh
your memory of your earlier
comments and questions on
this issue — see page A.

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