

MR SCHOLAR

cc Mr Mount
Mr Walters

I should like to hear Gordon's views on what to do with the 1983-84 plan.

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Prime Minister ①

Essentially, you are being asked to agree that things run on as they have - including the Vailey/Marshall assurances, the slow progress towards privatisation, collaboration etc. No new government money but an increase in the contingent liability to £2.1b by

BL's 1983 CORPORATE PLAN 1987 (para 5.11). Agree Mr

Jenkin's conclusion (para 5 and Annex C)?

The Government has agreed to a massive level of support for BL; bygones are bygones, and BL must now be given a chance to show what they can do with it. It seems to us that BL have prepared a good operating plan for 1983, which gives the best chance of keeping further losses to a minimum.

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But we retain the doubts we have always had about the chance of BL ever breaking even. It seems to us virtually certain that in a few years BL will be coming back to the Government for more money; and we note that for the first time the BL Board themselves recognise that the Austin Rover Group will never be viable. The forecast share of the market, particularly for trucks, is optimistic; and BL's competitive position is not strong enough on its own: the LM10 and 11 cannot produce enough cash to finance the next generation of cars, including the successor to the Metro.

The only way out of this remains a major restructuring to bring BL into a close relationship with an efficient and probably Japanese car manufacturer. Then it could benefit from all the economies of scale in research, production and marketing that it at present lacks. Mr Jenkin recognises this, and proposes (Annex C to the documents he has sent to the Prime Minister) a review by Ray Horrocks of possible changes which might "over time" reduce the Government's exposure. This seems to be intended to feed into the next corporate plan, ie in 1984.

We think that that may be too late. If the Prime Minister agrees you could reply to Mr Jenkin that, while she is content with the corporate plan, she notes that no solution to the losses on volume cars is in sight; and she therefore hopes that the

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prospects for collaboration with foreign companies such as
Honda will be pressed forward urgently.

J.

13 January 1983