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E(81) 3rd Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 22 JANUARY 1981 at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Leon Brittan QC MP
Chief Secretary
Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

SUBJECT

BRITISH LEYLAND'S CORPORATE PLAN

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BRITISH LEYLAND'S CORPORATE PLAN

The Committee considered a minute of 21 January from the Secretary of State for Industry to the Prime Minister about the Government's response to British Leyland's Corporate Plan.

Their discussion and conclusions reached are recorded separately.

BRITISH LEYLAND'S CORPORATE PLAN

Previous references: K(80) 45th Meeting, Para 4

The Committee had before them a minute of 21 January from the Secretary of State for Industry to the Prime Minister about the Government's response to British Leyland's Corporate Plan.

THE SECRETARY OF STATE FOR INDUSTRY said that, together with the Chancellor of the Exchequer, he had discussed with Sir Michael Edwards the possibility of finding some middle ground between the alternatives of backing or rejecting the Plan. Sir Michael Edwards was, however, totally unwilling to accept a commitment to the Government that he would sell parts of BL within a stated period. He saw no chance of selling the value of his business for the Plan being. The sale of landrover would lose him his best negotiating card for the Government's objective of entering into collaborative deals with other major manufacturers. If it were accepted that disposals did not offer a solution, the Government was back to a choice between the stark alternatives of supporting the Plan and closure. In favour of supporting the Plan it could be argued that the public was convinced that the BL management and workforce were being brought to do all they could to improve the prospects of the company, and that the Board could be relied upon to carry out its undertaking to withdraw the Plan if any appreciable reduction in the chances of success became evident, whether for internal or external reasons. The difficulty of this approach was that success and failure could not always be judged in black and white terms, and it could well be that performance could deteriorate.

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25 January 1981

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CABINET
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(81) 3rd Meeting Minutes
THURSDAY 22 JANUARY 1981 at 9.30 am

SECRET

BRITISH LEYLAND'S CORPORATE PLAN

Previous reference: E(80) 45th Meeting, Item 4

The Committee had before them a minute of 21 January from the Secretary of State for Industry to the Prime Minister about the Government's response to British Leyland's Corporate Plan.

THE SECRETARY OF STATE FOR INDUSTRY said that, together with the Chancellor of the Exchequer, he had discussed with Sir Michael Edwardes the possibility of finding some middle ground between the alternatives of backing or rejecting the Plan, Sir Michael Edwardes was, however, totally unwilling to accept a commitment to the Government that he would sell parts of BL within a stated period. He saw no chance of selling the volume car business for the time being. The sale of Landrover would lose him his best negotiating card for securing the Board's objective of entering into collaborative deals with other major manufacturers. If it were accepted that disposals did not offer a middle course, the Government was back to a choice between the stark alternatives of supporting the Plan and closure. In favour of supporting the Plan it could be argued that the public was convinced that the BL management and workforce were being brought to do all they could to improve the prospects of the company; and that the Board could be relied upon to carry out its undertaking to withdraw the Plan if any appreciable reduction in the chances of success became evident, whether for internal or external reasons. The difficulty of this approach was that success and failure could not always be judged in black and white terms, and it could well be that performance could deteriorate,

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though not sufficiently to cause the Board to withdraw the Plan. The Government would then be left with a deteriorating business, continuing demands for financing and no reduction in the difficulty of closure. Even if the Plan were to succeed, BL would be making only small returns on their capital investment and they would still need Government guarantees of their financing. The choice before the Government was acutely difficult, but on balance he now recommended that the Government should reject the Plan and accept the dissolution of BL, with the disposal of the specialist units and the closure of most of its volume car operations.

THE CHANCELLOR OF THE EXCHEQUER said that he agreed that there was no middle course, by way of early disposals of parts of BL, between the alternatives of accepting and rejecting the Plan. Rejection would have considerable and damaging repercussions on industry in the United Kingdom. If BL were to collapse, the prospects of the other car manufacturers were such that Ford could be left as the only major manufacturer meeting United Kingdom demand from United Kingdom production. This would have serious consequences for our components industry. Because of these wider effects on British industry, he recommended that the Government should accept the Plan, encourage Sir Michael Edwardes to dispose of parts of the business as soon as was practicable, and aim to improve yet further the industrial relations within the company.

In discussion it was argued, in support of rejecting the Plan, that it could be only a matter of time before BL's volume car business collapsed. There could be no guarantee that the new medium car model, which would be available in two years' time, would be successful in highly competitive markets. Thus support of the Plan would mean that substantial further investment of public money would be wasted, and the problems and costs of closure would be in no way diminished. Sir Michael Edwardes and his Board had said that if the Government so decided, they were willing to preside over the rundown of BL; the Government should welcome this opportunity and invite them to do so. In what would be a form of receivership, it could well be that considerable parts of the business could be sold for relatively low prices rather than closed. If so, the consequences for employment of refusing to support the Plan would not be so disastrous as was claimed.

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On the other hand in support of accepting the Plan it was argued that -

a. Closure of BL would have a catastrophic effect on British industry, particularly in the West Midlands, and in the British Steel Corporation. It was implausible that, at a time of economic recession in the United Kingdom and in the international car business, buyers would come forward to take substantial parts of BL. The successful launch of the Metro had given a great boost to morale not only in BL but more widely. Moreover there was no doubt that the determination of the BL Board to contain wage costs and the willingness of the labour force to accept low pay settlements and changed working practices had had a considerable and beneficial influence on management and workforce attitudes generally. Although expensive events at BL had, in the public mind, given hope that British industry was capable of pulling itself out of its present difficulties. To let BL collapse would be to destroy that hope.

b. Public opinion was that Sir Michael Edwardes had enjoyed marked success in his task. At long last it seemed that common sense was prevailing in BL. To withdraw support from the company now, and in the absence of a major strike, would be seen as an attack by the Government on the BL workforce and would undermine much that the Government had achieved so far. It would unite the unions in a common cause against the Government and forfeit their co-operation on other issues.

c. Alternative jobs were not readily available, and the costs of closure, and of the consequent unemployment, over the next few years would be higher than the cost of supporting the Plan. The right course was to back the Plan, to impose firm conditions, and to encourage the Board to groom parts of the business for sale when that was practical. There might be advantage in collaborative deals, but there should be no binding commitment to this in advance, since it could inhibit disposals. If some other company had a stake in both volume cars and Landrover, it would then be difficult to dispose of Landrover, and other manufacturers would no longer be interested.

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THE PRIME MINISTER, summing up the discussion, said that the Committee agreed on balance that BL's Corporate Plan should be accepted, subject to firm and clear conditions which should be acknowledged in a letter from Sir Michael Edwards to the Secretary of State for Industry. In particular, the Board should indicate that they would withdraw the Plan if there were any substantial deviation from performance as assumed in it. The Government did not wish to be committed to acceptance of collaborative deals, prior to considering any specific proposals, and the statement should avoid any such implication; indeed it might be better if neither the statement nor the letter referred to the possibility at all. The Secretary of State for Industry should announce the Government's decision, and publish Sir Michael Edwardes' letter to him, on Monday 26 January. He should circulate a draft of this statement to members of the Committee. To avoid the possibility of leaks the European Commission should not be informed of the decision before 26 January. The Secretary of State for Industry should agree with the Foreign and Commonwealth Secretary on the precise timing and form of this consultation.

The Committee -

1. Agreed that British Leyland's Corporate Plan should be accepted, subject to firm conditions which would be published.
2. Invited the Secretary of State for Industry -
 - i. to circulate a draft of his announcement of this decision, and of Sir Michael Edwardes' letter to him, taking account of the Prime Minister's summing up of their discussion.
 - ii. To announce the decision to the House of Commons on Monday 26 January.
 - iii. To agree with the Foreign and Commonwealth Secretary the timing and form of consultation with the European Commission on the decision on the understanding that they would not be informed before 26 January.

Cabinet Office

23 January 1981