

Ref. A01469

PRIME MINISTER

British Leyland

BACKGROUND

The meeting at 8.30 on 20th February to discuss BL is being held at your initiative. The Secretary of State for Industry's minute to you of 19th February provides the basis for discussion. The Secretary of State has separately written a letter of 14th February - to the Chancellor of the Exchequer - about financial guarantees to the public sector in the event of a BL collapse; but I doubt if you need pursue this at the meeting.

HANDLING

2. I think the main issue on which you will wish to concentrate is whether adequate contingency planning is going on in case the plan has to be withdrawn. The critical passage in Sir Keith Joseph's minute is at (e) and (f) on page 3. This reflects Sir Keith Joseph's meeting with Sir Michael Edwardes last Saturday, when Sir Michael said he was prepared to respond positively to approaches made to him by potential purchasers, but was not prepared to initiate action, mainly because of the risks of leaks. The trouble about this is that, if BL's decline (in its present form) is indeed irreversible, there is no reason why a potential purchaser should make an approach: the assets will be cheaper later. If the object of the exercise is for the sake of employment, to keep BL as a going concern within a larger international group, and get some sort of price for it, then the sooner the sale happens the better. Perhaps a decision whether to take the initiative can be postponed until after the meeting on 12th March, when the board of BL is to review the plan. Should it be left any longer than that?

3. Questions you may like to ask are:-

- (a) How does Sir Keith Joseph now rate the chances of last December's plan succeeding? The main problem is car sales. The December plan forecast 20 per cent United Kingdom domestic car market share in the year as a whole, but they were only 15 per cent in January, and - despite the sales campaign being at its height, complete with substantial discounts - only 18 per cent in the first fortnight of February. Is this an upward trend or



a new ceiling? Finance on the other hand is not an immediate problem. BL's lay-off plans save them money on materials and overtime pay (even though those laid off will get basic pay indefinitely, under a CSEU/EEF agreement); and a strike would save more money still in the short term.

- (b) How long are the BL board likely to be prepared to continue with the plan?
 At their meeting on 13th February, they agreed the plan could not be met in its present form, but indicated that only modifications were called for (as opposed to wholesale scrapping). Can this be reconciled with the board's statement of last December (attached) - especially the second paragraph? How likely is it that they will change their view at their next meeting on 12th March?
- (c) What contingency plans are being pursued? We know of the following:-
- (i) The Ford approach. This is highly confidential. You may not want to mention any names; but you might ask Sir Keith Joseph if he has anything which he wishes to report on possible acquisitions by other motor manufacturers.
 - (ii) Others. These are in a quite different category, because they imply BL remaining as a separate entity, with only piecemeal modifications to the existing plans. They include:-
 - (1) A BL/Honda working party is discussing additional collaborative possibilities beyond the Bounty project at Cowley.
 - (2) There have been tentative discussions with Nissan, reportedly interested in buying BL's Belgian assembly plant at Seneffe (peripheral to the main problem?).
 - (3) Aston Martin have discussed purchase of the MG plant at Abingdon.
 You might ask Sir Keith Joseph to report on these and any other known proposals.
- (d) Should other initiatives be taken? The main danger now appears to be not a sudden financial collapse or cash crisis, but a further steady erosion of market share. So BL's proposal of "no initiatives until after a collapse" presents two difficulties:-

- (i) When will they (or the Government) decide that matters have gone beyond repair?
- (ii) Might it not be too late then to sell BL anyway (except at a knock-down price), since BL will have an even smaller market base to sell?
- (e) Are there any other suitors to encourage? The obvious one might be General Motors (GM). Are GM likely to approach BL or the Government?
- (f) Employment implications of contingency plans. Are there any plans likely to save Cowley and most of Longbridge - given that most prospective purchasers have a much stronger mid-car range than BL? How far does this mitigate against the "wholesale disposals" approach? Or could sale to another major manufacturer be combined with continuing (say) the Honda/Bounty project at Cowley?
- (g) Impact of the pay negotiations and Robinson. You will want to discuss prospects of strike action. Will a strike force BL to declare the plan "abandoned"; and if so who steps into the breach?
- (h) What steps can or should be taken to prepare BL for sale as separate units? At the end of the day break-up of the company may be necessary. How complicated is this likely to be? And are the BL board planning against this contingency?

CONCLUSIONS

4. Sir Keith Joseph is not seeking decisions now and you will probably want to do no more than ask him to keep you, and a few senior colleagues, closely in touch with developments; and to agree that it will be necessary to return to this subject soon after the BL board meeting on 12th March.



ROBERT ARMSTRONG

19th February, 1980