

Prime Minister

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**SECRET**

See also Ken Bennet's  
brief (in his folder) which  
suggests we should go  
hard for an outright  
sale to Ford or GM.

P.0176

PRIME MINISTER

FUTURE OF BL

12/15/12

(E(79) 86: a minute of 14 December from the Secretary of State for Industry to the Prime Minister and E(79) 74 are also relevant)

(There is also  
a note from  
Tom Hoskyns).

BACKGROUND

1. When E discussed EL last week, it was not prepared then to approve EL's plan. Instead it asked for further meetings with Sir Arthur Knight and the EL Board before further consideration by E. The main points on which E wanted their views were:-
  - a. How far the plan needed to be altered to allow for the deterioration in profits and market share since it was written.
  - b. Whether the plan was really viable.
  - c. How far Sir Michael Edwardes and the rest of the EL Board were personally committed to remaining with EL to implement the plan.
  - d. The possibility of establishing a clearer definition of what would constitute "failure" of the plan, which would lead Sir Michael Edwardes and his Board to recommend its abandonment.
2. E also agreed there was no objection to EL signing their deal with Honda, on the understanding that the Government was not at this stage committed to the plan.
3. Sir Keith Joseph's paper (supplemented by his minute of 14 December) reports subsequent discussions both with Sir Arthur Knight and with the EL Board. In effect:-
  - i. Sir Arthur Knight and the NEB have opted out - by saying they could not make any useful comment on the plan in under about two months.

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- ii. Sir Michael Edwardes has said he wishes to leave by the end of 1980.
- iii. BL's revised and up to date forecasts - to take account of the recent deterioration - represent the minimum level of additional cash needed to implement the plan.
- iv. The BL Board do not think it would be possible to give a much tighter definition of failure. However they have made two new moves. First they have eliminated the earlier statement that in the event of external causes resulting in the plan not being fulfilled (as opposed to internal causes), they would not necessarily wish to withdraw it. Second, they have included a statement that "on the basis that funding is provided now, the Board will arrange on a highly confidential basis to put in hand contingency planning against the possibility that the plan has to be withdrawn." (See last paragraph of statement attached to Sir Keith Joseph's paper at Annex A).

4. However, Sir Keith Joseph - and according to his minute, Mr Biffen and Mr Nott - all think the 1980 Corporate Plan should be supported. Broadly their argument is:-

- a. The plan is very risky.
- b. But to refuse to fund it now would be politically unacceptable, because of the sudden collapse that would result.
- c. Therefore the right course is publicly to fund the plan, while privately making contingency arrangements to run BL down in a controlled way, primarily by finding buyers for as much of BL as possible (bearing in mind that if BL survives for a time, parts of the business will be saleable at better prices than now and much of the Plan's funds should be recovered in a liquidation or rundown).

## HANDLING

5. You might like to suggest that E should concentrate on what seem to be the two main alternative courses of action; these are as follows:-

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## EITHER

A. To fund the plan as Sir Keith Joseph proposes, while confidentially taking action to prepare contingency plans against rundown and disposal.

## OR

B. To refuse to fund the plan, while arranging if possible for the present Board to run the business down themselves. If the Board declined to do this, EL would have to go into liquidation. (But Sir Keith Joseph implies in paragraph 3g of his minute that the Board would stay on to run it down given the necessary funding and 'probably' guarantees going beyond the 'Varley' assurances which the present Government has confirmed).

6. There are a large number of uncertainties and imponderables about these two courses; and you may well want to take advantage of your preliminary briefing meeting with officials to probe some of them. Questions to ask include:-

a. How realistic is the first alternative? In particular would it really be possible to keep the arrangements for planning EL's rundown confidential while being publicly committed to supporting the plan?

b. What real chance is there of getting enough potential buyers? Sir Michael Edwardes seems to have spoken rather gloomily about only one third of EL really being saleable. How much should be read into the kind of speculation - eg in Tuesday's "Times" - that Renault might be interested in bidding for EL? How far would prospects be improved for buyers, depending on whether EL approached them while the existing plan was still being funded (ie under course A) or the Government simply waited for buyers to come along and pick up the pieces (ie under course B)?

c. We understand that Sir Keith Joseph envisages that, if the first course, of funding the plan, is followed, there would be a joint group of officials from the Department of Industry and EL who would give further consideration to arrangements for producing a "contingency plan", ie arrangements for disposals. You might ask Sir Keith Joseph to outline more fully what he has in mind. Are the respective roles of his Department and EL sufficiently clear?

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- d. What exactly are the intentions of the EL Board? Would they really be prepared to stay on and arrange for disposals of EL if the plan was not funded? And if the plan were funded, could Sir Michael Edwardes not be persuaded to stay on for more than one more year?
- e. What about the relative costs of the two options? Could the second course (of not funding the plan) be cheaper, since it avoids having to pay out the £300 million or so which EL wants in the next financial year? Or would this saving be more than offset by reduced value of the assets and the increased number of redundancies?
- f. What about the PESC implications for this year and next? Sir Keith Joseph says (paragraph 4 of his minute of 14 December) that officials are exploring with the Company whether it is possible to avoid a further charge on the Contingency Reserve in the current financial year. With what result? As to next year the Chancellor is apparently ready (penultimate paragraph of E(79) 86) to agree to an extra £147 million PESC allocation in 1980-81 if colleagues accept continued funding for that period. The timing and method of payment of the extra funds is being discussed with Treasury and EL. Again with what result?
- g. What about the political implications? The collective view of Sir Keith Joseph, Mr Nott and Mr Biffen is reported (in Sir Keith Joseph's minute of 14 December) to be that "liquidation now would not be understood and that politically and economically the Plan should be approved and funds provided". This is the central judgement on which E will need to concentrate.
- h. Timing. Sir Michael Edwardes thought it impossible to sign the Honda seal without Government approval of the plan. He has therefore extended his original 20 December deadline to 27 December. But he thinks it would be difficult to persuade Honda to hold out for a further extension. Does this mean the whole deal is off - and effectively a decision taken to 'pull the plug' on EL - unless the Government gives approval to the plan, this week?

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CONCLUSIONS

7. The effective choice is between:-

EITHER

A. Support for the plan, on the understanding that urgent contingency arrangements are worked out between the Department of Industry and BL for running BL down and maximum disposals:

OR

B. Refusal to support the plan.


8. If colleagues choose the first course, you will want to record conclusions on:-

i. The Parliamentary statement attached to Sir Keith Joseph's paper. Is it agreed that this should be made before the recess? You might ask for detailed comments in writing.

ii. The funding of the plan. You might suggest that this should be agreed bilaterally between Sir Keith Joseph and the Chancellor, on the lines indicated in E(79) 86.

iii. Permission for BL to sign the deal with Honda, as part of the immediate implementation of the plan.

9. If colleagues prefer course B (refusing to fund the plan), you will want to record conclusions on the handling of the decision both publicly and with BL-bearing in mind, in the latter case, the desirability, if possible, of retaining the co-operation of the BL Board in carrying through the rundown.



P Le CHEMINANT

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