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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

BL CARS: 1981 CORPORATE PLAN

Note by the Central Policy Review Staff

1. In E(80)145, the Secretary of State for Industry invites his colleagues to continue to support the Cars division of BL and to approve the 1981 Corporate Plan in principle. The main reasons put forward are:

(a) that there is a reasonable chance of the Plan's carrying BL through to the mid-1980s which, though short of full commercial viability, will enable the Government to be relieved of primary responsibility for funding;

(b) commencing closure of BL Cars now would carry even heavier PSBR and wider social and economic consequences.

2. In the opinion of the CPRS, there is no normal commercial justification for putting further Government money into BL's volume car business. The justification is the impracticability of commencing closure under present circumstances. Closure now would impose an even heavier burden on next year's PSBR. It would also have serious employment consequences and would be a severe blow to the supply industries at this difficult time. There would also be obvious political difficulties as the Secretary of State points out. The CPRS reluctantly agrees that as a practical matter the 1981 Corporate Plan has to be broadly supported, failure to do so would inevitably result in the unwanted collapse. However, it is important that Ministers should guard against becoming locked in for years.

Prospects if BL Cars continue

3. The CPRS believes there is no significant chance that BL Cars can ever on its own become a viable producer of volume cars

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generating an adequate proportion of the cash needed for development and investment in new models, and that it will remain dependent on Government for funding, either directly or as guarantor. It is possible that if the progress outlined in the Plan were achieved BL Cars might improve sufficiently to become a take-over prospect for one of the major volume car manufacturers. However, it seems to the CPRS that, in practice, the chances of this occurring are slender. Furthermore, on the basis of BL's past record of performance against plan, and the risks of failure on this occasion that are set out in the paper by officials (E(80)141), the chances of BL Cars being disposed of in due course in this way are further reduced.

4. BL are intending to reduce some of the problems that arise from small volume of output compared with major competitors by negotiating a series of collaborative deals on models, components and distribution. This is obviously a sensible objective. However, wide ranging deals of the sort BL need are rare and the only example of true collaboration so far is the Honda Bounty which will do little for BL in financial terms. It would be wrong to place great reliance on wide reaching success from talks with other manufacturers.

5. Despite the valiant efforts of Sir Michael Edwardes and the BL Board, the low probability that BL Cars will be other than a continuing demand on Government funds means that the objective when providing further support should be to keep the commitment to the minimum necessary to prevent collapse. This means general approval for the 1981 Corporate Plan, including specific project approval for the LM 10. The latter is necessary because without it the confidence of the dealer network and of the Company's management would be lost, and this would itself lead to collapse. This support should be subject to the Secretary of State's proviso set out in his recommendation 14(a).

Jaguar Cars

6. The Jaguar business of BL Cars is already physically and managerially separate from the volume car business. Jaguar will

be a heavy cash absorber in the next few years and the proposal for a new model, the XJ40, will come to Ministers for approval in the Spring at a project cost of about £75 million. Against the background of the poor prospects for the volume car business, in order to minimise calls on the PSBR it seems prudent before then to discover on what terms it would be possible to transfer a controlling stake in the Jaguar business to one of the larger motor manufacturers. Disposal has other attractions. A new owner with good management and an appropriate network overseas could transform the prospects for this part of the business. About 20,000 jobs are at stake in Jaguar and its suppliers, and there is an obvious advantage if these can be safeguarded by separation.

7. The CPRS suggests that before the XJ40 project is brought forward for approval, the BL Board should be asked to explore the possibility of disposal. They should probably retain distribution rights in the United Kingdom at least for a transitional period, and might also perhaps keep a non-controlling interest in the Jaguar business. An appropriate dowry to secure such a deal might not be uneconomic. These terms might be acceptable to the BL Board, whereas outright loss of Jaguar would not.

8. Disposal of Jaguar in this way would leave Ministers with a more manageable problem in a year or so's time if by then it is clear that closure of the rest of BL Cars is unavoidable and politically feasible.

Conclusions

9. The CPRS view is that Ministers should support the recommendations put forward by the Secretary of State but that the BL Board should be asked to attempt to find a purchaser for Jaguar before bringing forward the XJ40 project. In giving this support Ministers should be aware of the probability that later closure of BL Cars may be unavoidable.

Cabinet Office
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