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NOTE OF A MEETING HELD AT No. 10 AT 1100 HOURS ON FRIDAY,  
16 JANUARY

cc master

PRESENT

Prime Minister  
Chancellor of the Exchequer  
Secretary of State for Industry  
Sir Robert Armstrong  
Mr. Ibbs  
Mr. Hoskyns  
Mr. Wolfson  
Mr. R. Mountfield, Department of Industry  
Mr. Duguid  
Mr. Whitmore  
Mr. Lankester  
Mr. Walters

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The purpose of the meeting was to consider further the Government's options in responding to BL's request for funding of their corporate plan. The meeting had before it John Hoskyn's note of 15 January and Robin Ibbs' note of 15 January. The Prime Minister also referred in the course of the discussion to the Secretary of State for Trade's minute of 16 January.

The Prime Minister began by repeating the view she had expressed at the previous meeting that there must be a "middle way". She could not accept that there was no alternative to fully funding the plan other than closure of the business. There had been an alternative a year ago - namely, that the Government should get out of BL as soon as possible and that at least some parts of the business should prosper on their own; but even though this had been Ministers' aim at that time, nothing in this direction had been achieved. She did not believe that closure of the volume car business would be acceptable to Cabinet at least in the short run: but she believed that conditions should be attached to whatever further financing the Government provided so that closure became <sup>the</sup> eventual destination. The Government's aim should be to get rid of the financial liability of the volume car business in a way which was humane and politically acceptable. At the same time, the possibility of finding a buyer for BL volume cars should not altogether be discounted: as the world economy came out of recession, the prospects

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should improve. It would be worth paying a "dowry" rather than have BL volume cars as a continuing liability on the Government. If the more profitable parts of the business could be sold off, she was sure that they would be more successful.

The Chancellor said that in reality there was no "middle way". The approach suggested by the Prime Minister would almost certainly mean the demise of BL volume cars. An instruction to BL to dispose of both the profitable and unprofitable parts of the business (or to achieve mergers) would be simply another route to closure of BL volume cars. However, it was possible that this might be a cheaper method of bringing about closure than simply withdrawing support. If, on the other hand, it was decided to support the plan in full, the only hope of success would be to introduce some measure of protection; but this was incompatible with our EEC membership.

The Chancellor then quoted the conditions on which the Chrysler funding package in the United States had been put together - in particular, the condition that they should go all out to dispose of assets and achieve mergers, or else liquidation would in due course follow. It would be possible to offer BL money on this basis. But Ministers would have to be quite clear that, in doing this, they were contemplating closure of BL volume cars.

Mr. Ibbs said that, in his view, the prospects for BL taken as a whole, were hopeless. The Government should tell Sir Michael Edwardes to dispose of BL's assets as fast as possible. It should be possible to find buyers for parts of the business other than volume cars. The strategy for the latter should be to look for a buyer; as it became increasingly clear that none was likely, the prospects for that part of the business would look increasingly bleak; and then it would have to be closed. The Government should support the plan, including providing finance for the new intermediate car - but with a view to a quite different outcome from that envisaged by BL.

/ Mr. Hoskyns

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Mr. Hoskyns said that the choice of alternatives was not quite as stark as had been suggested. Closure of BL volume cars would not happen overnight, and the possibility of a controlled run down should not be altogether ruled out. Nonetheless there was a downside risk that the decline of volume cars would "run away" as the dealer network lost confidence. If the Government decided on the "middle way" suggested by the Prime Minister, it should be made quite clear to Sir Michael Edwardes that if he did not achieve sales or mergers within, say, a year, support for those parts of the business would be withdrawn. To make disposals and/or mergers possible, the business would first have to be restructured into separate companies: the current reorganisation of BL was one step in this direction.

Sir Keith Joseph said that Sir Michael Edwardes was very opposed to the idea of a "dowry" being paid to a potential purchaser of volume cars: this would, in his view, undermine all the discipline that he had built up. Mr. Walters pointed out that this assumed that the purchaser would take on the existing labour force, though to avoid this would no doubt require receivership first. In response to a question about the impact of the higher short run PSBR which might result from closure, Mr. Walters said that the interest rate effect would be adverse; but closure would have a positive effect on activity insofar as it reduced real wages.

The question was then raised as to whether the Nissan project could be expected to compensate for the closure of BL volume cars. Mr. Mountfield said that, if implemented, the project would involve 200,000 units by 1986; but in his view, it was still very much in doubt. He thought there was a slightly better than even chance that they would - in the light of their planned feasibility study - decide to go ahead with the project.

The question of whether Sir Michael Edwardes would be prepared to stay on as Chairman if conditions on the lines proposed were imposed was also raised. It was pointed out that, once the Nissan proposal became public and also the hiving off of Prestcold, the situation would have changed somewhat; and in these circumstances, he might be willing to stay.

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/ Sir Keith Joseph

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Sir Keith Joseph said that perhaps the option of demanding a cut in money wages should be considered further as a condition of funding. It was generally agreed that this was not worth pursuing.

In conclusion, the Prime Minister said that the option of supporting the plan but on condition that BL disposed of their assets rapidly and/or arranged mergers seemed to her the best available. But more work needed to be done on what precisely should be said to Sir Michael Edwardes, and what specific decisions - and when - had to be taken. The whole issue would have to be brought before colleagues - and they would have to be told that the implication of the proposed strategy was the likely closure in due course of BL volume cars; but before doing this, she and Sir Keith Joseph would see Sir Michael Edwardes. The CPRS, in consultation with the Department of Industry and the No. 10 Policy Unit, should prepare a speaking note for such a meeting and a note setting out the various decisions that would have to be taken, taking into account various contingencies such as Sir Michael's possible refusal to go along with the strategy. These notes would have to be considered at a further meeting of the group the following Tuesday, and a meeting with Sir Michael Edwardes would be set up after that meeting, probably for the Wednesday.

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Distribution: Sir Robert Armstrong  
Mr. Ibbs  
Mr. Hoskyns  
Mr. Walters  
Mr. Wolfson

16 January 1981

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