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THE PRIME MINISTER

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FUTURE OF BL

I shall be in India when discussion is resumed in E Committee on the future of BL. There are some points which I should like to have made.

First, I am struck by the optimism implicit in the arithmetic of the Corporate plan on the public finance necessary to secure an enterprise which, on Sir Michael Edwardes' own figures, will barely begin to show a positive cash flow after five years' support.

I recognise that officials do not challenge any of BL's assumptions as unreasonable. But any of these could go wrong and arithmetic depends on them all being about right. Thus, the exchange rate has to stay roughly the same, even declining a little; reasonable pay settlements are needed, continuing well forward even after two satisfactory years of unprecedented modesty already; labour disputes must be rare enough to justify output assumptions; inflation has to be adequately reflected in investment costs; and the investment programme itself has to be adequate.

Is it realistic to suppose all these assumptions will be realised? I doubt it. In fact, have BL asked for enough money to go forward, let alone to be attractive to potential partners? And have we thought enough about support which we might also

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need to offer - for instance to the components industry - if the economy more generally is to reap significant benefit from keeping BL going?

Second, we have decided (I am sure rightly) to welcome Nissan with its plans for the fleet market. But the central plank of BL's planning is the LM10 family. I am not convinced that we have faced up adequately to the adverse impact on this from Nissan's rivalry.

I see that we are asking Nissan to think about two models instead of one: but if Nissan are ready to consider this, the second model will presumably still be chosen to fit their basic strategy - the fleet market. I am aware that Edwardes' oral reaction has been cautiously constructive. But BL's written warning in their plan is that their calculations rest on no further Japanese penetration of the European market.

If mandatory import controls were proposed (either as part of the basic strategy or more particularly to dilute the impact of Nissan's investment) we should, of course, need Community approval - as we shall need their understanding on funding for BL and the realisation of Nissan's inward investment plans. It would be a tall order to ask for all three - even if we are prepared to contemplate that controls could have far-reaching and unpalatable consequences for British industry generally.

Third. The options are essentially two - to reject BL's request (with grim consequences for unemployment and immediate public expenditure flowing from liquidation) or to find a sum which would fund a corporate plan anchored on a new medium car range.

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But if we go for the latter, I believe we should do so only after first deciding what are our real expectations and intentions for BL's future; and, in that context, after discovering what co-operation we can get from Edwardes and his team.

Given the arithmetic and bearing in mind BL's very modest position in the world manufacturing league, I do not think it is satisfactory simply to debate the cost of liquidation compared with the suggested cost of the corporate plan. Edwardes categorically admits that the latter is not a commercial proposition and he implicitly recognises BL is not viable on its own.

If we are to justify this order of expenditure then it must surely be for a more decisive objective, namely to groom BL for sale - either corporately and quickly (whether to a consortium or to a single buyer) or after the proposed break up into its component parts as soon as possible thereafter to suitable partners. Successful sale clearly depends on avoiding a public split with Edwardes and preferably securing his active co-operation: so we should disclose our objective to him and invite him to discuss the alternate strategies for getting there.

Finally, as I have already suggested, such an objective also depends on adequate funding. If we are to avoid the costs of rescue plus those of subsequent closure, we may have to be ready to face higher initial costs.

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I am copying this minute to other members of E Committee,
Robin Ibbs and Sir Robert Armstrong.

W. J. B.

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