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NOTE OF A MEETING TO DISCUSS BRITISH LEYLAND: 0830 HOURS
WEDNESDAY 20 ~~DECEMBER~~ FEBRUARY

Present:

The Prime Minister
Chancellor of the Exchequer
Secretary of State for Employment
Secretary of State for Industry
Sir Robert Armstrong
Sir Kenneth Berrill
Mr. John Hoskyns

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Sir Keith Joseph first reported on the latest situation at British Leyland. The company were not yet at the "edge of the precipice", but the situation was very worrying. Their market share was falling, the outcome of the pay dispute was far from certain, and there was the Robinson affair. However, at least the BL board were showing a good sense of realism; and they were willing to stay in post to bring about a "soft landing" if the Plan had to be aborted. They would be meeting on 12 March to decide whether to proceed with the Plan. There were three possible outcomes of this meeting:

- (I) they might decide to stick to the plan - but this was unlikely;
- (II) they might dismiss the Plan altogether, and decide on the run-down of the company;
- (III) they might decide to modify the plan. This could involve earlier closures of some plants (e.g. Canley) and bringing forward redundancies, deferring capital expenditure of £50 to £100 million, and earlier disposals of some parts of the business.

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British Leyland management had already prepared contingency plans on the basis of (III) above. If they were to decide on (II), it would probably take up to two years to run the company down. The Chancellor had agreed to provide the necessary financial guarantees on a contingency basis. As regards the options for disposal, he himself would much prefer it if the company could be sold as a whole, but it seemed unlikely that any potential purchaser would be willing to take on the whole business. Ford of Europe and Nissan had expressed an interest in purchasing all or parts of the company, but discussions were still at a purely exploratory stage. In his Department's view, Ford were unlikely to take on the whole of BL because of financial difficulties in the parent company - though the management of Ford of Europe were very keen to proceed. Nissan seemed interested in taking over the BL dealer network and building a new plant, possibly at Milton Keynes, but not in taking over BL's existing car plants.

Sir Keith said that he had told BL that the Government would not mind if the whole business were sold to the Japanese. In his view, this could well be the best outcome, though it would cause trouble with the Europeans. However, Sir Michael Edwardes seemed more interested in a sale to a European company - and, in particular, to Peugeot. It might be desirable to press the Japanese case with Sir Michael. Besides Ford, there was just a possibility that General Motors might be interested in buying BL; but again this seemed unlikely because GM were generally disenchanted with the UK as a manufacturing base.

The Prime Minister said that she understood that Sir Michael Edwardes was unwilling to take the initiative in trying to find a potential purchaser. Sir Kenneth Berrill added that, while it might well not be possible to sell BL

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as a whole, it would still be a great pity if the opportunity were lost for lack of initiative by BL management. The prospects of a sale in a year's time, or even in a few month's time, were likely to be worse than they were now. The Chancellor said that it did not seem necessary to wait until the Board meeting on 12 March before actively looking for purchasers.

Sir Keith replied that Sir Michael Edwardes was not averse to looking for a purchaser either for BL as a whole or for parts of the business. But he was very worried that information on this might leak. If the Board did decide that the Plan was no longer tenable, it would not take them long to explore the disposal options. The most likely prospect, in his view, was that BL would gradually close down Longbridge and Cowley, and sell off their other plants. It should not be too difficult to find a purchaser for the truck and bus plants, and also the Seneffe plant in Belgium. Sir Michael Edwardes had warned that a foreign purchase must not be seen as a rescue. This meant that the Government must not provide the purchaser with a subsidy in order to persuade him to come in. If it were interpreted as a rescue, all of the realism which had recently been gained amongst the BL workforce would be lost. The Prime Minister asked whether the Government, as shareholder, had the necessary expertise to judge the disposal options. The Chancellor and Sir Keith said that the Government needed outside advice, especially since the NEB's capability had been run down (the Chancellor added that the Treasury were doing their own analysis of the implications of a BL collapse for the Budget and the economy as a whole). Rather than call in a merchant bank, it would be better to call on an individual such as Kenneth Cork, Rupert Nicholson or Ian Morrow.

Summing up, the Prime Minister said that the Chancellor and Sir Keith should urgently consider who might be approached to provide advice on the disposal options. Whoever was appointed

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could start work in advance of the BL Board meeting on 12 March. It would be important to keep this work strictly confidential; but if it did become known, it could be defended on the grounds that the Government needed to take a view on the possible bids which were already being discussed for parts of the business. Ministers were agreed that it would be far better if the whole of BL could be sold, but they recognised that the possibility of this was unlikely. They should meet again soon after the Board meeting on 12 March.

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20 February 1980

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