

A Duguid



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PRIME MINISTER

We are meeting to discuss the future of BL Ltd at 8.30 am on Wednesday 21 February. This minute reports on the current state of play at BL and takes account in particular of points covered at a meeting held with Sir Michael Edwardes on 16 February. I must stress the extreme delicacy of the situation; leakage of information about our contingency planning could precipitate trouble with the unions and might even precipitate the abandonment of the Corporate Plan with all the consequences that might entail. I must therefore ask recipients of this minute to limit its circulation on a strict need to know basis.

BL CARS WAGES AND CONDITIONS NEGOTIATIONS

I reported recent events to Cabinet on 14 February. In the BL Cars union ballot a 3:2 majority supported the union's rejection of the company's offer; on an 82% poll 49% of the eligible voters (the hourly rated employees) backed the union position. The company told the Joint Negotiating Committee meeting on 15 February that there would be no improvement in the pay offer (5% for most grades, 10% for the most skilled workers and a productivity element which provided the possibility of individual employees earning an additional £15 per week), and the negotiations have been adjourned for a fortnight. There is no desire on the unions' side to take industrial action in support of their original 26% across the board pay claim; and Michael Edwardes has made it clear that the management will not increase the offer or go back on any of the moves to improve working practices but there could be some room for negotiation on certain peripheral aspects.

BL CARS' LAY-OFFS

The Unions were informed on 11 February of the company's intention to announce on a plant-by-plant basis an extensive programme of lay-offs. No numbers were given at the time but about 30,000 people will be involved at the peak. The lay-offs, which will begin to take effect from 25 February, /necessary to reduce excessive stock levels following an excellent January production run (101% of the programme) but a disappointing sales performance (15% UK domestic market share). The company considered that in terms of relations with the Unions it had to make its intentions public before the ballot result was announced. There are of course extensive

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lay-offs in the motor industry world wide, in particular in North America. BL expect to make some redundancies on the back of these lay-offs.

THE ROBINSON AFFAIR

BL expect the unions in Birmingham to call an official strike at Longbridge. This will not be popular on the factory floor and further action by the management will depend on the response from the workers and its duration. The management's aim is to keep the Robinson issue separate from the wage negotiations; if Ministers are tackled Michael Edwardes suggests we continue to say it is a matter entirely for the company.

CASH FLOW

Apart from laying off workers BL are taking other measures to conserve cash and are putting in hand a review of their Plan. They do not foresee problems arising over cash flow at least in February and March. The steel strike will affect BL increasingly from the end of the month but the lay-offs will help to conserve supplies though BL have been careful not to attribute them to steel.

CONTINGENCY PLANNING

Play A

As the Board undertook in their 14 December paper on "The Position of the BL Board" they have put in hand contingency planning on a highly confidential basis. Department of Industry and Treasury officials have been associated with this work but I attach great importance to it being carried through urgently by BL themselves. In my discussions with Michael Edwardes we saw the possibilities as follows:

- a) the best outcome would be for the Plan to succeed;
- b) however, work is in hand in BL to modify the Plan to keep within the present funding provisions. These modifications need to be compatible with moves to increase collaboration with other manufacturers and to take account of the need to minimise damage should the Plan fail;
- c) BL are developing further collaboration possibilities with Honda and with other manufacturers following signature of the agreement with the former at Christmas. These would help the business should the Plan be carried through and could provide a basis for disposals if it fails;
- d) should withdrawal of the Plan be necessary - and the BL Board are unanimous that a decision on this will not need to be taken before their 12 March meeting at the earliest - it will be essential to provide time for cool and deliberate action. The Board have previously undertaken to consult me before taking a final decision and they would be prepared



Flagg B
and
Chancellor's
reply
at Flagg C

CRS disagree
with this: they
think Edwardes
should be
looking for
a buyer

now

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to remain in control to achieve a "soft landing". The Board would, however, require the support of guarantees for their borrowing on the lines of my letter of the 14 February to the Chancellor. I am sending copies of that letter to those who have not yet received them. The guarantees would not increase HMG's financial exposure :

e) at that stage Michael Edwardes in consultation with me would rapidly approach the heads of a small number of other manufacturers world wide to see what prospects there were of selling the business as a whole. He attaches great importance to such action not being initiated now as news would certainly leak and do further damage to sales dealer confidence and Union relations (this does not rule out a positive response to approaches made to us); and I agree with him. His view is that in the present state of BL and of the world industry sale of the entire business is not likely to be a runner now or in the immediate future;

- f) if the business cannot be sold to a single purchaser, the BL Board themselves in close consultation with the Government would take firm action to fragment the business. This would involve maintaining and subsequently disposing of those parts which were likely to be saleable; and the closure and breaking up of the substantial part - particularly in volume cars - which did not have a future. The objective would be to minimise the costs falling on public funding and to save as much as possible of the assets and jobs with continuing viability. Contingency work in BL, with which officials are associated, will be directed to identifying the constituents of the business accordingly and setting up now an appropriate subordinate company structure. Michael Edwardes stressed to me again the grave consequences which would flow from this situation for the components and supplying industries and for the economy - as officials brought out for us in their report last November.)

CONCLUSION

BL faces some extremely difficult months ahead and public confidence in the company has undoubtedly taken a severe knock in the past 7 days. However, I endorse the BL Board's view that it would be premature to abandon the Plan now. We are fortunate in having a realistic Chairman and Board determined to look at all reasonable options. Clearly we cannot expect dramatic developments on the collaboration/ disposal front in the current atmosphere. I and officials are keeping in daily contact with the developing BL scene and I will keep you and colleagues informed of significant developments.

I have considered whether we should re-activate the interdepartmental group which prepared the report on the Plan for us. This does not seem necessary at this stage in view of officials' involvement in BL's contingency planning. It is also essential that the



numbers involved should be most severely limited to reduce the risk of damaging leaks.

I am copying it to the Chancellor of the Exchequer, and Secretary of State for Employment, Sir Kenneth Berrill and Sir Robert Armstrong.

KJ

K J

19 February 1980

Department of Industry
Ashdown House
123 Victoria Street

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POSITION OF THE BL BOARD

The 1980 Corporate Plan sets out the BL Board's proposals for the future. It contains the Board's plans to put the Company on a sound footing for the 1980's. However, the Board does have serious concerns about the Plan, in particular:

- the fact that the Plan falls short of the financial objectives which had been set for the Company;
- the need for a significant improvement in productivity;
- the need for a significant demonstration of commitment from employees for the Recovery Plan;
- the fact that the current world economic environment and outlook are unfavourable for the development of the Company's business;
- the recent serious erosion of the Company's current financial position through the CSEU dispute, the dispute following the dismissal of Derek Robinson, and the loss of market share (largely due to lack of confidence in BL's future).

On the other hand advances have been made during the year. Before the CSEU dispute production had settled down and productivity was rising at a number of important plants. There was an 87% "Yes" vote in favour of the Company's Plan in the secret ballot of all BL employees. The Board has successfully shown firmness in dealing with recent unconstitutional action. Wage negotiations in BL Cars are proceeding smoothly and the management has confidence in a satisfactory outcome.

In any decision the Board considers it will be necessary for the Government to base its judgement on the importance of BL to the economy as a whole, on the consequences of not going ahead with the Plan, and on the progress that the company is making in the industrial relations area. From a purely commercial point of view the risks outweigh the opportunities. But inspite of that the Board is of the view that it is possible for the Company to recover and achieve viability. In any case the Board considers the present time is the worst moment to abandon the attempt at recovery; several major investment programmes are in mid course and should be completed, notably the Heavy Truck, Mini Metro and Land Rover programmes.

In the light of all this the Board considers it right to seek from Government the funds necessary for the implementation of the Plan and stresses that the amounts specified are an irreducible minimum and provide a very slender margin. It states too that it is vital to the success of the Plan that BL now signs the deal that has been negotiated with Honda.

The Board emphasises the very considerable hazards from both within and without the company which face the Board and management in achieving the Plan. On the basis that the necessary funding is provided the Board will pursue the Plan with determination and will monitor closely the company's performance in a number of key aspects. If, in its judgement, it considers shortfalls in performance place the achievement of the Plan in jeopardy then the Board will have no hesitation

in recommending to the NEB and the Government that the Plan should be abandoned. Events which would be critical to such a conclusion are:

- major disruption of the Company's actions by strike action;
- significant shortfall on the Company's cash flow objectives;
- failure to deliver the Plan in any significant aspect; in particular, in regard to completion of programmes and launch of new products (including Honda), closure of plants and achievement of redundancies on time, and failure to deliver improved productivity and working practices called for in the ballot and provided for in the BL Cars' wage negotiating package.

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. If subsequently the Board comes to the conclusion that withdrawal is necessary, it will consult with the NEB and the Government about what should be done; and will collaborate fully with the consequent necessary action.

BL Ltd
14 December 1979



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A Duguid

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

19 February 1980

Duguid

BL GUARANTEES

Thank you for your letter of 14th February.

I agree that, for the reasons set out in your letter, we should be ready to authorise guarantees of BL's borrowings and existing overdraft facilities if they have to withdraw their Corporate Plan. I also agree that it should not be necessary to make any special provision for trade creditors beyond the general assurance that you would have to give in your Parliamentary statement if the guarantees were issued.

As you point out, if guarantees were given it would be essential to secure in return the removal from the loan agreements of the present conditions based on the observance of key financing ratios and the constraints on disposal of assets. It would also be important to ensure that the interest rates charged by the banks on short term borrowing were reduced to reflect the guarantees and brought into line with the rates paid by the nationalised industries. I understand that these various changes could take up to a fortnight to negotiate. It is, therefore, essential that if BL request guarantees they should give you sufficient notice to allow time for this.

Our officials are considering further whether it is necessary for the guarantees to extend to borrowings by BL's overseas subsidiaries. We shall need to consider this further when we have their advice.

I am sending a copy of this letter to the Prime Minister.

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe'.

(GEOFFREY HOWE)

The Rt. Hon. Sir Keith Joseph, Bt. MP.



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cc HMT
DIM
CPRS
CO
JS
19/2/80

10 DOWNING STREET

From the Private Secretary

14 February 1980

Further to my conversations with your office today, I am writing to confirm that the meeting to discuss British Leyland will now take place at 0830 hours on Wednesday 20 February. Can you assume that an official will be welcome but we will be confirming this with your office during the afternoon of Tuesday 19 February.

I am sending copies of this letter to Martin Hall (HM Treasury), Ian Fair (Department of Employment), Gerry Spence (Sir Kenneth Berrill's Office), and David Wright (Cabinet Office).

CAROLINE STEPHENS

Ian Ellison, Esq.,
Department of Industry.

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Secretary of State for Industry

14 February 1980

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

MBM met
P. H. H.

Dear Geoffrey,

BL GUARANTEES

As a necessary part of the contingency planning on BL, my officials and yours have discussed with the NEB and the company the immediate action that may be required if the Plan is withdrawn. In such an event it will be extremely important to maintain the confidence of the bankers, the various loan stockholders, and other creditors in order to avoid an immediate run on the company.

As you will recall, when the issue was considered last October we decided that the Government should be prepared if necessary to reiterate Eric Varley's assurance to the House in May 1977 that the NEB 'would not allow BL to be left in a position where it would be unable to meet its obligations'; subsequently Michael Marshall confirmed this position in an answer to a question in November. The effect of this statement and of the comfort letters issued to the banks with the previous administration's approval is that the Government, through the NEB, is in practice, but not in law, already guaranteeing BL's obligations.

The view which BL's financial advisers, Hill Samuel, the Bank of England and my officials take is that in the event of the Plan being abandoned, it will be necessary for two reasons for the NEB to issue guarantees on all BL private sector borrowings. The first is quite simply to prevent a financial collapse brought about by BL's bankers calling for the immediate payment of overdrafts and the withdrawal of facilities; and to enable BL to negotiate waivers from the stringent default clauses in their medium term loan agreements and the triggering of default clauses in their loan stock and foreign currency bonds agreements (details attached). The second is to allow time for the BL Board, which would require new operating instructions from the Government, to organise the restructuring of the company and disposal of viable parts of the business on an on-going concern basis. The Hill Samuel advice confirms that provided last autumn by Kleinwort Benson (the NEB's advisers) and the views of officials that the

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alternative of a straight BL liquidation would not permit these objectives to be achieved; and I myself continue to attach high importance to the BL Board seeing through such an operation. (I am advised that the alternative of a receivership is not possible for technical reasons).

Since it is possible that we may need to react extremely quickly to a BL Board request for guarantees, I would be grateful for your agreement in principle now that I should ask the NEB to issue the guarantees if the need arises. The guarantees would cover all the company's borrowing and existing overdraft facilities. The condition on which guarantees to the loan stockholders and the syndicate led by Citibank responsible for the £85 million medium term loan would be that they should forgo permanently current rights to require the observance by BL of stringent financing ratios and to approve disposals of significant parts of the business. A waiver from these obligations would be critical to enable the later re-structuring/disposal programme to be implemented. I should add that holders of commercial loan stock and foreign bonds could make some capital gain as a result of the guarantees, but I regard this as a relatively minor matter compared with the importance of providing the BL Board with the necessary freedom to carry through its re-structuring programme.

given
would be

Finally, I do not see that it is necessary to make any special provision for trade creditors. The issue of the guarantees would be made public probably in the context of a Parliamentary Statement on BL and should be sufficient to reassure them that the company would be in a position to meet its obligations.

I will be sending a more general letter to all colleagues attending the Prime Minister's meeting on 18 February. I am confining circulation of this letter to the Prime Minister.

Evan
Kear

ANNEX

EXTENT OF BL PRIVATE SECTOR BORROWINGS AND COVERAGE OF GUARANTEES

BL's borrowings cover several types:

a)	Medium term bank loans	£115m
b)	Unsecured loan stock	£63m
c)	French and Swiss Franc bonds	£22m
d)	Miscellaneous small loans	-
e)	Overdraft and short term borrowing facilities (including overseas)	£400m - £500m
[f)	Government loans	£165m]
g)	Trade creditors	

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