

Ind Policy

BRITISH LEYLAND - LESSONS LEARNED SO FAR

It is important that we document the present position on BL, so that we develop a "learning curve" and get the approach better next time - whether for BL or some other problem situation.

1. OUR ORIGINAL OBJECTIVES

I think we agreed that, if we had to give BL further finance, we would want to get the following political and economic "goods" for our money:

- (i) Demonstrate Government's support for moderate union behaviour, with the unions responsible if things go wrong.
- (ii) Set the scene for the ending of the BL saga, whenever and however it happens, so that it cannot do us further political damage.
- (iii) Use our handling of the BL problem to teach reality and demonstrate our refusal to fudge difficult issues.
- (iv) Minimise the long run economic impact of the BL problem.

2. HAVE WE ACHIEVED OUR OBJECTIVES?

2.1 Looking at these four objectives in turn:

- (i) The reinforcing of moderate union behaviour at the expense of the militants is still going well. This must be because Keith left Edwardes in no doubt, from early September onwards, that this Government was not afraid to pull the rug if that seemed the right thing to do.
- (ii) We have not set the scene for the next step of the BL story.
- (iii) We have not really used the BL situation to teach reality or demonstrate our own realism.
- (iv) We have faced, internally, the fact that the BL problem is almost insoluble. We have agreed that a search for buyers must start forthwith.

3. SETTING THE SCENE FOR THE NEXT STEP

- 3.1 Many hours were spent by the Bullock group studying the BL Plan. But very little time was devoted to the Government's political strategy, until the Honda deadline meant that there was really no time left. As a result, we have not yet established clearly enough, in our own minds, where we stand.
- 3.2 For example, what is the likely outcome at the end of year one, if we have not found a buyer, and the BL Board has not recommended abandonment of the Plan? There are really only two outcomes, in that case, one year from now:

(I) BL is either on Plan and we therefore give them tranche number two for the second year.

or (II) BL is not on Plan. Who would decide that that is the case? BL Board, NEB, or Government? How? When? Are we ready to face the full implications of break-up/run-down at that point if no buyer is in prospect? Have we ensured that there will not then be a dove-hawk split in Cabinet?

3.3 Are we all set to bite the bullet if BL Board does pull the plug in the next few months (eg as the result of a steel strike)? This question was never discussed explicitly at E.

3.4 Or are we really taking a different view, without spelling it out in so many words? This might be that the Net Present Value of *all* future subventions to keep BL ticking over is almost certainly likely to be less than the NPV of closure. That is, by implication, the DoI officials' view, and it would be a perfectly respectable position to take, except that we have never in fact asked ourselves that question.

3.5 We have never really answered these questions in a way that clears colleagues' minds. This was why we kept raising the question of the Honda decision; not because we were against the Honda deal (far from it) but because we felt that the Honda deal was being used to force us, quite unnecessarily, into a quick decision and a quick statement.

4. WHAT THE STATEMENT SHOULD HAVE SAID

4.1 If we had had more time, I suggest that the draft should have made the following points:

- (a) Draw special attention to the BL Board's acceptance (in its letter) that failure for any reasons would lead to the same result. Stress that the dreamworld of past years in which BL has been protected from the external hazards which every other business has to face, is ended. The latest letter from Edwardes to Keith and the message from him to the work force, is a great advance on what went before and helps us to establish the criteria by which future decisions will be made.
- (b) Make a more specific reference to the voice of the moderates in the work force, BL management's stand against the militants. The Government's readiness to back BL is in part a recognition that there are people there who deserve the chance.
- (c) Answer, before it is asked, the inevitable question "what happens in a year's time?" Make it clear that BL will continue to come under NEB, that NEB (under its new hard man, Knight, appointed as Keith's own choice) will judge whether BL is still on course. In other words, while the BL Board might well pull the plug of its own volition, the NEB could recommend pulling the plug to the Government, whatever the BL Board may feel. We were quite right to say that the Government should not pull the plug now, while Edwardes enjoys hero status, provided we set the scene, now, for doing so later if we have to. ("They did what they always said they'd do.")

(d) Make it absolutely clear that what will not happen next time is what has always happened in the past - that a new management team puts forward a new Plan with (surprise, surprise) larger funding requirements, and the Government explains that it must give the new management a chance with a Plan in which management believes.

4.2 The view put forward at E by the Home Secretary and backed by John Nott was, in our view, absolutely wrong. It was the stale political conventional wisdom of UK's post-war failure; say as little as possible in the statement, and leave all available funk holes open; ie "Yes, we really are tough, but next year, not this". We have in my view ended up doing exactly what the DoI officials wanted us to do from the outset - to give them the money, with minimum explanation and no strings and let tomorrow take care of itself.

5. ARE WE PREPARED TO FACE REALITY?

5.1 If we mean business, our statement should have proved it unambiguously. We should have broken all the codes of Westminster fudging conventions by giving hostages to fortune, by setting the criteria for our decision in a year's time as clearly and as publicly as possible so that the public knew (and not least the work force at BL) that we really would bite the bullet if there was nothing else left to do. I doubt if we have successfully done that. Our actions are identical to the actions of Labour right through the Ryder Plan with a rationale for each year's cave-in.

5.2 If, notwithstanding these comments, we are prepared for the worst (eg if BL Board pulled the plug quite soon) it's worth thinking early, just how we would handle the resulting costs which would be likely to break the new funding profile, unless we were extremely lucky with a quick sale. If the total cost was, for example, a further £500m in the first year, we have to explain that we cannot print or borrow the money and that there is not enough time to make further public spending cuts of that order; and that we must therefore raise the money by additional taxation specifically to deal with the BL problem - say, £30 from each of 17 million households. Both our actions, and our words, must make it clear that Britain's post-war dreamworld is over.

6. BE PREPARED

6.1 We are analysing the press cuttings on the BL statement, to see how it has been received. First indications are reasonable, but this has nothing to do with the problems which still lie ahead of us when things go wrong again.

6.2 I suggest that we have a review (a very small group of people so that we can really get our arms around the problem) at about the end of January in order to anticipate the way in which the BL story is likely to evolve, and to establish clearly, before it is too late, what the main decision points and lead-times are so that we do have enough time to think about the right things and prepare the right messages, so that we don't simply get caught short by another deadline like the Honda one.

Out of all this, it should be possible for us to prepare some general guidelines which may improve our chances of getting it right, on the next BL-type problem.

I am copying this to Geoffrey and Keith.



JOHN HOSKYNS
21 December 1979