

① J.V. 3

Prime Minister

① Land Rover should be sold off as quickly as possible.

I do not understand why it is expected to take it forward when it became a separate company on 1 Jan 1982.

Robin Ibbs has suggested that work on 8 (a) (b) and (c) could be commissioned immediately, to assist the discussion (which cannot take place until April 21).

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Qa 05862

To: MR SCHOLAR

17 March 1982

From: J R IBBS

Cannot take place until April 21).

BL's Future Structure

Agree?

② If it is to be sold off - I see the point in putting it into a restructured company.

1. In his minute dated 16 March the Secretary of State for Industry recommends agreement to the BL Board's proposed new structure for the Company, namely that it should be split into two separate companies each owned directly by the Department of Industry.

Or would you prefer to defer any action until the meeting?

the meeting?

MCS 19/3

2. There are three obvious alternatives -

(a) to accept the BL Board's proposal;

(b) to insist on a unified structure with a number of independent business units as recommended by the Consultants, and to seek a new Chairman to take over in November;

(c) to insist on a unified structure and in view of the disagreement with Michael Edwardes to replace him immediately, and also the Board if need be.

③ If M.E. is not staying - the new chairman should have the main say in any changes.

3. If I judged there were reasonable prospects of BL becoming viable I would advocate alternative (c), not least because the air of negotiation and blackmail that hangs over this entire issue, from the haggle over objectives onwards, is not really acceptable. However, since Michael Edwardes is popularly regarded as 'a success' public ructions with him could well transfer to the Government entire responsibility for the next failure of the Company to come up to expectations. This is almost certain to occur whether there is a unified structure or two separate companies. Alternative (c) therefore has to be contemplated very guardedly.

④ Can Jaguar's accounts be made up as a separate unit.

4. As regards alternative (b), retaining the unified structure and replacing Michael Edwardes in November, it seems reasonable to suppose that in view of Michael Edwardes' expressed view this would merely invite failure.

he mentions let work on a & b go ahead.

5. The alternative (a) of having two separate companies, as well as being inferior in the judgement of the Consultants, is not risk-free. Apart from the considerable likelihood of failure of one or both of the



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companies, making the split may involve major trouble with the Unions and, in view of the dubious prospects, setting up new loans may pose difficulties. The Consultants' report (paragraph 6.6) also pointed to potential management weaknesses in the separate companies.

6. I am also concerned about the implications of the 'absolute commitment to the limitations on Government funding envisaged in the 1981 and 1982 Corporate Plans'. (Nor is it clear how the commitment of the present BL Board can be binding on the Boards of the two separate successor companies, particularly if these are strengthened by new members, as the Consultants imply will be necessary; there is the further practical problem of establishing that the split of BL's very limited financial reserves has been 'fair'.) For a Company with a chequered history, previous consistent failure to meet profit targets, and the weak market position of BL, the chance of something occurring that makes continuation dependent on additional funding must be very significant. In the event of such difficulty does the Board expect to be able to raise private sector loans on the basis of implied Government guarantees and so honour the letter of the commitment? Or does it intend to 'withdraw the Plan' stating that there is no commercial case for continuing and propose some degree of winding up? If the latter is envisaged, the Government needs to be clear now on the political implications. It may face some closures with widespread unemployment consequences at perhaps an electorally embarrassing time; the alternative would be the embarrassment of renewed funding probably against the proclaimed commercial judgement of the Board. Only if closure is the result of action by the work force is it likely to be other than embarrassing. Before accepting the commitment on funding as an important argument for retaining the present Board, the Government needs to assess these implications.

7. The Secretary of State describes the fact that the Board has commissioned 'further work on the feasibility of total privatisation of Land Rover at the earliest opportunity' as a major concession. The implication that they might choose not to examine such a possibility



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when requested to do so by their shareholder is evidence of the extent to which the Government has lost effective control of the Board. I would not regard any worthwhile concession as being achieved until they come forward with a firm plan that is robust to the proposed separation of BL into two companies, with a specific date that looks realistic.

8. On the assumption that the risks and difficulties inherent in immediate replacement of Michael Edwardes now rule out that alternative, the practical conclusion is to accept the BL Board's proposal as recommended by the Secretary of State. However, I suggest this should not be done, despite the need for great speed that Michael Edwardes will argue, until -

- (a) the implications of the commitment on no additional funding have been established;
- (b) a specific plan for the total privatisation of Land Rover has been produced;
- (c) the Department of Industry has provided plans for ensuring that the strength of the Boards and management of the two new companies will be adequate for the tasks facing them.

9. I am sending a copy of this minute to Sir Robert Armstrong.

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cc Mr. Hoskyns  
Mr. Walters

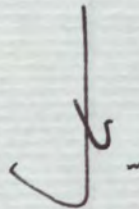
MR. SCHOLAR

BL's future structure

I have discussed Patrick Jenkin's note of 16 March, which covers the CCG Report on the future structure of BL, briefly with John Hoskyns. The Policy Unit would like to submit considered views after we have all had time to study these papers. Meanwhile I would like to offer two thoughts:

(i) There are now broadly two camps: the consultants and the CPRS (with whom I have discussed this briefly) believe that the present unitary structure of BL should be retained; but the BL Board, and the Department of Industry, believe that the present organisation should be split into two separate companies, broadly Cars and Commercial. The Policy Unit has hitherto taken the view that although these organisation and structural questions are of great importance, they ought to follow rather than precede Ministerial decisions on the extent and rate of privatisation they wish to see in BL, and on how a new Chairman might be found prepared to put that into operation.

(ii) I understand that Mr. Jenkin will be away for ten days as from the end of this week, but it seems to me inevitable that there will need to be some collective discussion of the Report and Mr. Jenkin's recommendation on it. The CPRS tell me that Mr. Ibbs is preparing a note: and I have already been called by Michael Edwardes' Private Secretary, stressing the need for speedy decisions (although it does not appear that there is any particular deadline to meet).



John Vereker

17 March 1982

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*And let file 4  
bc JV*



10 DOWNING STREET

*From the Private Secretary*

18 March 1982

*Dear Jonathan,*

BL's FUTURE STRUCTURE

The Prime Minister was grateful for your Secretary of State's minute of 16 March about the Corporate Consulting Group's study of the BL Board's proposal on future structure.

The Prime Minister would like to hold a discussion on these matters. The earliest date for this is, I fear, Wednesday, 21 April at 1600, and we have made arrangements accordingly.

I am sending copies of this letter to John Kerr (H.M. Treasury), John Rhodes (Department of Trade), Barnaby Shaw (Department of Employment), David Wright (Cabinet Office) and Gerry Spence (CPRS).

*Yours sincerely,*

*Michael Seaton*

Jonathan Spencer, Esq.,  
Department of Industry.

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