NEW THINKING ON THE NATIONALISED INDUSTRIES

BL: Changing Gear

Foreword by Michael Grylls MP

Centre for Policy Studies

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FOREWORD

The publication of this study is opportune. It is a signal to the Government that the public should be offered the chance without delay, to invest in those parts of BL which are now successful.

The report argues that Jaguar and Unipart are now ready to be sold. In my view, the money raised from the introduction of private capital should be retained within the BL Group and considered as a dowry for the development of models in the future. This would help attract further private investment and reduce the call on the taxpayer.

This report is, I believe, an important contribution to the debate as to the future of BL and I warmly commend it to all those who both take an interest in the company and in the use of public sector resources.

Michael Grylls MP
Chairman, Conservative Backbench
Trade & Industry Committee.
September 1983

INTRODUCTION

This report is a sequel to the earlier study *BL: A Viable Future?*[1] Since its publication in November 1981 the recommendations contained in it have been widely discussed and in a number of cases implemented.

This second report examines the recent performance of BL and presents further proposals on Government action in the light of the 1983 BL Corporate Plan. The structure of this report follows closely that of the previous study. The figures have been up-dated and in many cases expanded. There are additional sections on factors such as the influence of the Sterling exchange rate and the consequences of the present price disparity for similar automobile products within the EEC.

The sections are arranged under the following headings:

- Government Funding to BL chronicles public spending on BL since 1975;
- Financial Targets sets out the objectives for the Group;
- Company Information sets out what is publicly available and highlights the lack of essential information on the Group's subsidiaries;
- The BL Group: Profits Record details the profits and loss record of BL including the Group's trading performance for the six months ended 2 July 1983. Attention is again drawn to the lack of financial information on the Group's constituent companies;
- BL Cars: This section is subdivided into five.

BL's sales record is analysed and deals with market share performance. BL's export record is then assessed and the influence of the Sterling exchange rate is considered. Finally, an assessment is made of the possible results of the present wide gaps in car prices throughout the EEC.

1. *BL: A Viable Future?* Centre for Policy Studies, November 1981.

- BL Leyland deals with the commercial vehicle division;
- BL Unipart deals with the component distribution division;
- Employment Issues discusses the measurement of the number of jobs dependent on BL. The trend towards diversification within the component industry is also considered;
- BL: Industrial Relations notes the many improvements achieved in this field in the last few years;
- Conclusion draws together the themes which emerge from the various sections of the report; and,
- Recommendations puts forward proposals for the return of the Group to the private sector.

1 GOVERNMENT FUNDING TO BL

Between 1975, when the Company became state-aided, and January 1983, BL received £2,051m from the Government. Except for the loans from the NEB which were subsequently converted into equity and the stake in Wholesale Vehicle Finance Ltd. neither interest nor dividend has been paid on this sum.

Actual Government spending on BL since 1975 is as follows:[1]

1975/76	£46m	Purchase of shares from private shareholders.
	£200m	Initial equity funding under British Leyland Act 1975.
1976/77	£100m	Loans (£70m NEB; £30m Section 8, Industry Act 1972) converted to equity, 31 March 1980.
1977/78	£50m	Loans (NEB) converted to equity 31 March 1980.
1978/79	£450m	Equity (£300m NEB; £150m Section 8, Industry Act 1972).
1979/80	£25m	Equity committed by NEB for their stake in Wholesale Vehicle Finance Ltd., a NEB subsidiary set up to finance BL Dealers' stocks.
1979/80	£150m	Equity (NEB)
1980/81	£300m	Equity (NEB)
1981/82	£520m	Equity (DOI)

Under the Government approved 1982 Corporate Plan, BL was entitled to draw on £100m carried forward from the financial year 1981/82; an additional £370m in equity capital was also

1 Source: Parliamentary Select Committees on Industry & Trade, 3rd Report 1980-81, *Finance for BL*, HC294

available for the financial year 1982/83. In January 1983 BL had drawn on £780m and plans to draw on the remainder during 1983[1]. The Government has agreed to provide BL with a further £100m in equity under the terms of the 1983 Corporate Plan.[2]

In addition, BL raised a loan of £277m in January 1982 from UK and North American banks, backed by an implicit Government guarantee. The BL Board has stated its wish to "seek further private sector funds over the next two years within BL's mainstream business."[3]

1 Source: BL, *1982 Preliminary Financial Results*
2 Source: BL, *1982 Preliminary Financial Results*
3 Source: BL, *First Half Year Statement*, September 1982

2 FINANCIAL TARGETS

The 1982 BL Corporate Plan forecast a break-even position in 1983/84. The Chairman, Sir Michael Edwardes, explained to the Select Committee on Industry and Trade in January 1982 that the company was aiming to break-even at profit-before-tax level in the financial year 1984.

Yet BL's *Report and Accounts 1981* published a few months later stated that, "The company should approach break-even at the trading level in 1983 and at the pre-tax level in 1984." The BL Board reiterated this revised and much vaguer aim in both the *Report and Accounts 1982* and the statement on the *Half Year Results* (September 1983).

Despite a small first half year's trading profit in 1983 BL has still failed to achieve the volume sales necessary to take full advantage of economies of scale. Austin Rover has suffered badly from its out-dated model range of Allegros, Itals and Ambassador cars. The Metro, though successful, does not have large profit margins. The bus and truck business has sustained considerable losses due to the recession in the commercial vehicle market.

If BL is to maintain its recent progress, it will have to increase sharply its total unit sales, as well as continue to maintain a tight rein on suppliers' prices and its own costs of production, particularly its labour costs.

3 COMPANY INFORMATION

BL has gone some way towards providing the essential financial information required before a proper view can be formed on the Group's performance. At present full financial figures, ie profit and loss account, plus balance sheet, plus source and application of funds, are available for just one of the four separate businesses, namely Leyland Group Ltd. The audited 1982 *Reports and Accounts* for the other three operating divisions, which are "Company Act" companies, will be filed at Companies House in October 1983. In January 1983 BL reorganised its management structure so that the four separate businesses were fused into two distinct business groups: the Cars Group and Land Rover-Leyland Group. Two new "Company Act" companies were then established — Austin Rover Group Holdings Ltd and Jaguar Cars Holdings Ltd — within the Cars Group. The Land Rover-Leyland Group consists of Leyland Vehicles Ltd and Land Rover UK Ltd and a new company which combines these two companies' overseas sales and manufacturing interests — Land Rover-Leyland International Holdings Ltd.

BL has gone some way towards making available more information on the Group's subsidiaries as recommended in the first CPS report. But to help potential buyers as well as the present owners — the taxpayers — form a better view of the performance of the separate businesses, more information is needed. A full set of *Report and Accounts* for each of the following main BL subsidiaries should not merely be filed but *published*:

BL Subsidiary Companies
Austin Rover Group Holdings Ltd[1]
Jaguar Car Holdings Ltd[1]
Land Rover Group Ltd[2]

Unipart Group Ltd[2]
Leyland Group Ltd[3]
Self Changing Gears Ltd
Aveling Barford Holdings Ltd
Land Rover Leyland International Holdings Ltd

1 The audited 1983 Report and Accounts will be available at Companies House in mid 1984.
2 The audited 1982 Report and Accounts will be available at Companies House in October 1983.
3 Figures already available at Companies House.

4 THE BL GROUP: PROFITS RECORD

Any attempt to analyse BL's financial performance is hampered by the fact that the company provides insufficient financial information concerning its subsidiary companies. The decision to combine results for the Cars business with Unipart, and Leyland with Land Rover has made such an analysis more difficult. A detailed break-down of the subsidiaries' performance must wait until the 1982 *Report and Accounts* for BL Cars, Unipart, Leyland and Land Rover are filed at Companies House.

The *Annual Report and Accounts* show a partial profit and loss analysis for the BL Group, and is reproduced in Table 1. The corresponding figures for the first half of 1983, as presented in the *Half Year Results* (September 1983) are also given. It should be emphasised that it is not possible from the published information to give a full set of results for the four individual businesses.

BL decline to provide any information on the respective trading record of Leyland and Land Rover or the comparative performance of Austin Rover, Jaguar and Unipart. As can be seen from Table 1 BL Cars and Unipart taken together made a trading profit of £37m in the first half of 1983, a substantial improvement on the £37m loss sustained over the corresponding period in 1982. Unipart remains profitable and its annual turnover has stabilised following a fall of around £13m in 1982.[1] The Land Rover-Leyland Group, which includes overseas subsidiaries and the specialist transmission company, Self Changing Gears, continues to incur losses. In the first half of 1982 Leyland is estimated to have lost approximately £23m[2] while Land Rover made a small profit of around £2m. Information on their trading results for 1982 as a whole and the first six months of 1983 are not publicly available. Both have been hit badly by the sharp fall-off in exports to developing countries.

1 BL.
2 Leyland Press Office.

TABLE 1 Profit and Loss of BL Group 1980-1983

Table 1

Trading Profit/(Loss) £m	**1980**	**1981**	**1982**	**1983** Jan/July
BL Cars and Unipart	(283)	(168)	(78)	37.0
Leyland Group	(30)	(74)	(42)	(34.0)
Land Rover	27	17		
Other Activities	(8)	(20)	(6)	(1.7)
Total Trading Profit/(Loss)	(294)	(245)	(126)	1.3
Before tax	(388)	(333)	(223)	(39.7)
After tax	(391)	(339)	(230)	(43.8)
Before extraordinary items	(397)	(345)	(234)	(46.6)
Net loss	(536)	(497)	(293)	(48.4)

Note: 1 Decimal figures rounded
2 Brackets denote a loss

5 BL CARS

(i) Sales Record

TABLE 2 BL Car Sales 1980-1982

	1980	1981	1982
Total number of cars manufactured in UK	923,744[1]	954,650[1]	887,679[2]
Total number of cars manufactured by BL	424,900[2]	424,800[2]	416,700[2]
Total number of BL cars registered in UK	275,798[1]	285,071[1]	277,260[2]
Total number of cars exported by BL	160,468[1]	121,979[1]	133,862[2]
BL's UK sales and exports	436,266[1]	407,050[1]	411,122[2]

1 Source: SMMT, *The Motor Industry of Great Britain, 1982.*
2 Source: BL

Table 2 compares BL's domestic car sales and exports with their total production. It shows that BL car manufacturing accounts for around 45 per cent of UK automobile production. Roughly two-thirds is sold in the home market with the remaining third going to export. The volume of cars manufactured by BL in 1982 was down on the previous year. BL's loss of UK market share is reflected in its reduced 1982 sales, although its exports were higher.

Not all the cars BL produces within a calendar year will be sold within that twelve month period — there will inevitably be some overlap both at the beginning and end of the year. It should also be noted that the annual export figures shown do not necessarily indicate that the cars were sold in that particular year, they merely indicate the number of cars shipped overseas.

(ii) Market Share

BL Cars' market share declined between 1975 and 1980, rose slightly in 1981, but fell again in 1982. The record is shown in Table 3.

TABLE 3 BL Share of UK Car Market 1975-1983

1975	1976	1977	1978	1979	1980	1981	1982
30.9%	27.4%	24.3%	23.4%	19.6%	18.2%	19.2%	17.8%

Source: SMMT

In contrast to its domestic competitors, BL lost a good deal of its market in 1982 to foreign imports. To some extent this can be explained by the increased numbers of cars which Vauxhall, Ford and Talbot imported from their own factories on the Continent. In the continued absence of a competitive mid-range model, however, BL's market share would have been considerably worse were it not for the success of the Triumph Acclaim, built under licence from Honda. The car was the seventh best seller in 1982 with total sales of 42,200.[1]

Car sales were 19.1 per cent higher in the first eight months of 1983 than the corresponding period in 1982. BL sold 42,000 more cars but was barely able to improve its market share. In the first eight months of 1983 its market share was 18.3 per cent, only 0.2 per cent up on the same period the previous year.

This disappointing result underlines the importance of introducing swiftly the LM range of cars which will fill an important gap in the model range. Manufacturers are generally able to make greater profit margins on larger, more expensive cars. Sir Michael Edwardes acknowledged that BL would probably have now been in a much sounder financial position if the Board had brought forward the medium sized car programme. As he told journalists, "if there was one decision that I wish we could have made another way it was that one".[2]

1 SMMT
2 Remarks made at the 1982 Interim Press Conference, as reported in *The Financial Times*, 16 September 1982.

(iii) BL's Export Record

TABLE 4 — BL Unit Car Export Sales to EEC Countries: 1981 & 1982

	1981			1982		
	Austin Rover	Jaguar	Total	Austin Rover	Jaguar	Total
Belgium	4,597	245	4,842	5,452	177	5,629
France	23,793	255	24,048	33,040	159	33,199
W. Germany	5,372	971	6,343	3,230	783	4,013
Italy	22,469	619	23,088	28,631	444	29,075
Holland	6,068	348	6,416	6,149	172	6,321
Total	62,299	2,438	64,737	76,502	1,735	78,237

Source: BL

As can be seen in Table 4 the 1982 export trend showed an improvement over 1981 in many European markets. In Europe as a whole BL sold 105,000 cars, Land Rovers and Sherpas, a 25 per cent improvement on 1981[1]. Nearly half the total car sales of 92,500 were Metros, which illustrates the importance of attractive new models within the car range. Metro sales underpinned the improved performance of Austin Rover in several countries: Austin Rover sales were up by 39 per cent to 33,040 in France, in Belgium they were up by 18.6 per cent at 5,452 units and there was a 27.4 per cent increase in Italy, where sales totalled over 28,000.

BL state they will put more effort into increasing sales in those European markets where sales have so far been disappointing, namely West Germany, Austria and Switzerland. The marketing structure in these countries is undergoing reorganisation. Its importance is reflected in the fact that Austin Rover sales in West Germany fell by 40 per cent in 1982. Jaguar sales were also down to less than 800 cars. In contrast, both Mercedes Benz and BMW increased their British sales substantially in 1982 — Mercedes Benz had its most successful year ever and BMW sales were up by nearly 6,000 on its 1981 total of 17,000. (See Table 5).

1. BL

TABLE 5
UK Car Imports from EEC Countries

Manufacturer/Country	Number of Cars 1981	1982
Germany		
Audi/Volkswagen	80,221	92,435
BMW	17,086	22,977
Ford	76,684	100,349
Mercedes Benz	10,758	12,164
Opel	13,400	5,511
Total	198,149	233,436
France		
Citroen	27,395	24,149
Peugeot	17,805	19,636
Renault	72,041	64,147
Talbot	19,996	24,534
Total	137,237	132,466
Italy		
Alfa Romeo	8,030	8,928
Fiat	48,795	41,910
Lancia	6,472	5,170
Total	63,297	56,008

Source: *The Motor Industry of Great Britain 1983*, SMMT

BL exports to the United States of America dropped from nearly 31,000 in 1980 to 4,700 in 1981. The decision to withdraw the MG and Triumph sports car explains this sharp decline. It was left to Jaguar, as the only BL car now sold in the USA, to reap the benefits of an improved exchange rate. In 1982 Jaguar sales more than doubled to over 10,000 and in the first eight months of 1983 Jaguar had already sold 10,249 cars in the American market.

(iv) Influence of Sterling Exchange Rate

BL has repeatedly blamed the strength of Sterling for its relative lack of export success.[1] In the 1981 Corporate Plan BL forecast that Sterling would fall from its average trade weighted index of 96 in 1980 to 94 in 1981. In the event the actual figure was 95. BL point out that this out-turn figure, close as it was to the forecast, disguises the fact that the pound remained strong relative to the currencies of our EEC partners, whose markets account for BL's main export business. On the other hand, Sterling depreciated against the US dollar and Japanese yen, but these represent two less important export markets for the company.

Table 6 shows total car sales for five European markets from 1980 to 1982. With the notable exception of Italy, it can be seen that BL's market share remained relatively stable.

TABLE 6 BL Market Share in Europe 1980-1982

1980	**Italy**	**France**	**Germany**	**Holland**	**Belgium**
Total Car Market[1]	1,530,488	1,873,202	2,426,187	450,076	407,236
BL[2]	12,100	20,625	6,712	7,346	5,305
BL Market Share	0.8%	1.1%	0.3%	1.6%	1.3%
1981					
Total Car Market[1]	1,805,724	1,834,826	2,330,335	389,312	360,273
BL[3]	23,087	24,048	6,343	6,416	4,842
BL Market Share	1.3%	1.3%	0.3%	1.7%	1.3%
1982					
Total Car Market[1]	1,678,000	2,056,400	2,155,500	406,700	344,300
BL[1]	29,075	33,199	4,013	6,321	5,629
BL Market Share	1.7%	1.6%	0.2%	1.6%	1.6%

Source: 1 *Motor Industry of Great Britain* SMMT 1982
2 *L'Argus de l'Automobile* June 1981 Paris
3 *BL*

1 See for example Mr Ray Horrocks' statement at the Half Year Results press conference, 15 September 1982

The relative weakness of the pound against European currencies in 1982 should have made it easier for BL to sell cars on the Continent. In fact, Austin Rover, the main volume producer, found Italy to be its best export market despite the strength of the £ against the lire. Sales in Holland and Germany, where the Sterling exchange rate is now relatively attractive, remain depressed. This would indicate that the exchange rate serves to underline the relative competitiveness of the cars manufactured by BL. The success of the Metro in France, a car with great customer appeal, would appear to support this view. BL has been forced to price its cars at competitive levels in Europe, where car prices are in general lower than in the UK.

Sir Michael Edwardes told the Parliamentary Select Committee on Trade and Industry in January 1982 that, "We have taken the view in Continental Europe . . . that we will forego markets when we cannot compete at a profit."[1] Yet in the Chairman's Statement in the 1981 *Report and Accounts* Sir Michael Edwardes had admitted that, "with few exceptions, exports in 1981 continued to be either unprofitable or only marginally profitable." Later on in the year Mr Ray Horrocks, Chairman of BL Cars, acknowledged that only American sales were making an acceptable profit margin while exports to Europe were just breaking even. On the company's future export policy he said, "We shall continue to sell cars in Europe at break-even as long as it is necessary to maintain our dealer networks there and to enable us to meet our financial targets."[2]

Last year the average annual trade weighted index fell to 90.5. In September 1983 the index had dropped down to 85, an 8 point fall since November 1982. This substantial devaluation in the value of the pound should make it easier for BL to export profitably, which is essential if BL companies are to be successful.

1 Parliamentary Select Committee on Industry and Trade, 3rd Report 1981-82 *BL Ltd*, page 34, question 70.

2 As reported in *The Times*, 28 July 1982

(v) Price Disparity Within the EEC

The wide disparity in the car prices between EEC countries has received a great deal of attention in the last year. It is claimed[1] that the UK would have saved £1.3 billion or 0.6 per cent of gross domestic product if British customers had paid Belgian prices for their new cars in 1981.

The disparity between car prices in the UK and those on the Continent is illustrated in Table 7 which details the fluctuations over the last four years in terms of the index of prices in Sterling. The table demonstrates:—

(i) how manufacturers' prices widened considerably between July 1979 and July 1982,

(ii) that six months later in January 1983 differentials had generally closed but were nevertheless in most cases sizeable.

1 Source: Institute for Fiscal Studies, *Differentials between Car Prices in the UK and Belgium*, September 1982

TABLE 7 Index of Relative Pre-Tax Car Prices in Selected Countries 1979, 1982 & 1983

	JULY 1979	JULY 1982	JANUARY 1983
UK	Index	Index	Index
Mini 1000	100	100	100
VW Golf	100	100	100
Renault 5	100	100	100*
Jaguar 4.2	100	100	100+
Mercedes 280 SE	100	100	100
Belgium			
Mini 1000	84	62	79
VW Golf	97	79	70
Renault 5	79	66	76 *
Jaguar 4.2	83	78	78 +
Mercedes 280 SE	71	74	81
Germany			
Mini 1000	89	69	76
VW Golf	100	90	74
Renault 5	97	84	89 *
Jaguar 4.2	85	93	99 +
Mercedes 280 SE	77	71	85
France			
Mini 1000	90	70	80
VW Golf	108	81	74
Renault 5	80	76	88 *
Jaguar 4.2	90	89	125+
Mercedes 280 SE	82	89	99

* Renault 5TL

\+ Jaguar 4.2 Auto

Source: BL

The difference between typical pre-tax prices quoted by BL dealers in Belgium compared with dealers in the UK has narrowed as is shown in Table 8, but it is still substantial.

TABLE 8 Comparison of Pre-tax Car Prices Between Belgium and the United Kingdom 1981 and 1983

	UK pre-tax	Belgium pre-tax	Belgian % of UK price
At February 1981 prices			
	£	£	
Allegro 1.3 HL	3,057	2,076	68
Metro 1.0 L	2,740	1,960	72
Allegro 1.5 HL	3,428	2,188	64
Jaguar XJ6	10,199	8,648	85
Rover 2600 S	6,634	4,889	74
Rover 3500VDP	9,511	6,439	68
Princess 2000 HL	3,965	2,742	69
At February 1983 prices			
Mini 1000	2,318	1,766	76
Metro City	2,602	2,037	78
1 litre HLE	3,451	2,575	75
Acclaim HL	3,876	2,964	76
Rover 2.6S manual	8,007	6,075	76
Jaguar 3.4 manual	11,198	9,609	86
Jaguar 4.2 auto	13,106	10,245	78

1 BL.

Belgium may be argued to be an extreme case but there are considerable price differentials in other EEC countries as Table 9 shows.

TABLE 9 BL Price Comparisons, 17 January 1983

		Metro HLE	Acclaim HL	Rover 2600S	Jaguar 4.2
UK List	£	3451	3876	8007	13106
Index		100	100	100	100
Belg List		189,500	218140	447095	754000
(£=73.45 B. Francs)	£	2580	2970	6088	10265
Index		75	77	76	78
NL List		11620	13012	27880	47179
(£=4.11 Guilders)	£	2827	3166	6783	11479
Index		82	82	85	88
WG List		10221	12380	28350	46018
(£=3.75 Marks)	£	2740	3319	6394	12337
Index		79	86	80	94
F List		29630	34059	-	149737
(£=10.58 Francs)	£	2800	3219	-	14153
Index		81	83	-	108

Source: BL

Note: Specifications may vary between markets.

The reason for such price differentials appears to be three fold.

The majority of new cars are bought in Britain by companies, a state of affairs encouraged by the UK tax system, and corporate buyers tend to place their fleet orders with domestic manufacturers whereas private buyers are more likely to buy a foreign car. It can therefore be argued that the market sustains a relatively high cost domestic industry.

High prices are further exaggerated by importers' delayed response to recent movements in real exchange rates.

Thirdly, individuals who have personally imported vehicles from the Continent have sometimes met with difficulties over warranty claims, servicing and the adaption of their cars to comply with UK Marking Requirements.

Nevertheless, over 50,000 cars were personally imported in 1982.[1]

High prices in the UK have met with strong criticism in the press and active lobbying by consumer bodies such as the Consumers' Association. More significantly, the European Commission has begun to pay attention to this matter. It has already taken Ford to the European Court of Justice over its

1 As reported in *The Economist*, 16 April 1983

ban on sales of right hand drive cars in Germany. In an interim judgement (29 September 1982) the Court found that this ban was in breach of Common Market rules. Ford were ordered to resume sales and make available at least 4,800 right hand drive models annually.

The European Commission has the authority to place conditions on the exemption of car dealerships from the Treaty of Rome's ban on exclusive dealing. The Commission has now prepared a draft regulation whereby if a manufacturer's prices (ex-factory) vary more than 12 per cent within the Community, it will not be able to insist on maintaining a network of exclusive dealers. It remains to be seen whether any such regulation will be authorised. If the Commission does issue a directive it will encourage UK traders to import vehicles from the Continent, so long as they can take advantage of any marked differential in prices. In this way, together with its private consultations with manufacturers, the Commission is seeking to encourage market competition within the car industry.

Such legal action on barriers to free importation of vehicles, along with manufacturers' price adjustments to reflect recent real exchange rate changes, may tend to reduce the gap between British and Continental prices. Furthermore, over-capacity in the world car industry is likely to continue so long as governments support the financially weaker manufacturers. This should result in keener international price competition. It would be logical to assume that this would lead to lower real prices in the UK, although past experience is not reassuring on this matter. Any such realignment of prices would seriously affect BL's profit margins. The need to improve productivity and place in the market is thus dramatically underlined.

6 BL: LEYLAND VEHICLES

Until relatively recently Leyland Vehicles has been perceived as BL's most consistent profit earner. However the recession in the commercial vehicle market in recent years has resulted in substantial losses. In 1981 the Leyland Group (which included Leyland Vehicles) had a trading loss of £74m, nearly two and a half times that of the previous year. There was some recovery in 1982 when Land Rover-Leyland's combined trading loss was £42m. Leyland Vehicles recorded a loss of £59m[1]. The trading position has since deteriorated, mainly as a result of the continued depression in many of Leyland Vehicles' overseas markets. The overall loss for the first six months of 1983, before interest and tax, for the Land-Rover-Leyland Group was £34m.

Bus and truck production amounted to 16,300 in 1982 compared with a total of 16,582 the previous year. Total UK sales dropped from 9,515 in 1981 to 7,908 in 1982. Apart from coaches and single decker buses, Leyland's UK market share has fluctuated considerably, as is shown in Table 10.

TABLE 10 Leyland UK Market Share 1979-1982

	Trucks	Double Decker	Single Decker	Coach
1979	17.3	81.5	99.0	33.4
1980	17.3	68.9	98.3	27.8
1981	16.0	61.1	99.4	34.9
1982	13.4	58.9	100.0	38.2

Source: Leyland Press Office

In its statement on the *Half Year Results* (September 1983) the BL Board points out that "Land Rover-Leyland normally derives some two-thirds of its revenue from sales overseas, largely in the developing countries." In recent years demand in these markets has collapsed, for example, Leyland used to sell around 2,500 trucks a year in Nigeria but sales are now down to 100.[1] UK export sales in 1982 of £407m accounted for almost 50 per cent of Land Rover and Leyland Vehicles turnover. Truck exports totalled £167m and represented 40 per cent of Leyland Truck's revenue in 1983.[2] In an effort to improve sales performance in Europe Leyland have established a new French subsidiary, Leyland Vehicules Industriels, responsible for the development of a truck dealer network and spares service.

The recession in the commercial vehicles market has forced Leyland to rationalise its operations. The workforce has had to be cut and a number of plants have been closed down. Industrial disputes for the first part of 1982 led to a sharp decline in sales but the company recovered ground in the latter part of the year. Pay awards have been agreed on a plant by plant basis with hourly paid staff, a typical example being a 2.5 per cent annual rise negotiated recently at Leyland's main plant in Leyland, Lancashire.

1 As reported in *The Times*, 31 August 1983.
2 As reported in *The Financial Times*, 12 January 1983.

7 BL: LAND ROVER GROUP

The Land Rover Group is a holding company for Freight Rover, which manufactures light commercial vans, and Land Rover, which makes both the well known four wheel drive vehicle and the more expensive Range Rover. The Group also has a 49.9 per cent share in an associated Spanish company, Land Rover Santana, which assembles around 15,000 Land Rovers a year.

Freight Rover has recovered some of its share of the domestic light van market following a poor year in 1981. Land Rover produced 53,138 vehicles in 1982, slightly up on the 1981 total of 51,501. The Group's UK workforce has been reduced from 15,000 in December 1980 to 11,600 in December 1982. Output has remained at about the same level:[1]

	1980	**1981**	**1982** Jan/Oct
Vehicles per man/year	5.52	4.86	5.54
Total World Sales	86,000	66,000	67,000

Source: *The 1983 Coporate Plan,* February 1983.

Land Rover's profits fell from £27m in 1980 to £17m in 1981. The Group is unusually reticent about providing any more recent profit figures. It can be calculated that the Group made a small profit of around £m in the first half of 1982.[1]

1 Leyland Press Office

BL's original capital investment programme of £310m announced in 1978 has been cut to £200m. This spending has gone on increased production capacity at the Solihull factory and the development of new models. A new version of the Land Rover, the One Ten, was launched in March 1983.

The Land Rover Group faces increasingly tough competition from overseas competitors. Its ageing model range has been renewed to meet this challenge. Nevertheless, it is worrying to see the decline in both sales and profitability.

8 BL: UNIPART

Unipart is a manufacturer and sales distributor for components and replacement parts. Its customers include other vehicle manufacturers besides BL. The manufacturing division, S U Butec, produces original equipment and replacement parts for a variety of car marques.

An analysis of Unipart's trading performance is considerably hampered by BL's refusal to furnish essential financial information on the Group. According to press reports, annual sales turnover fell from £372m in 1980 to £340m in 1982.[1] The Group is nevertheless the most successful within BL. It is the only division to have made an overall profit in 1982 after allowing for interest charges and tax. The 1983 Corporate Plan points out that., "In spite of (this) low demand Unipart has performed better than other companies serving the vehicle aftermarket." Profits as a return on assets are said to have increased from single figures to 15 per cent in 1982[2].

1 As reported in *The Observer*, 27 February 1983, see also *The Financial Times*, 9 March 1983
2 As reported in *The Observer*, 27 February 1983.

9 EMPLOYMENT ISSUES

BL employed a total of 83,000 people in the UK in December 1982.[1] Attempts to estimate the number of jobs directly and indirectly dependent upon BL must be imprecise. Official employment statistics for the motor industry do not include jobs in a number of important component industries such as the electrical equipment, rubber and glass industries. Those working in component firms such as Lucas, Dunlop and Pilkington's are therefore excluded from these official government figures. Census of production figures show that a total of 448,800 people were employed in 1980 in the manufacture of motor vehicles, their engines, bodies and parts as well as trailers and caravans.[2] No figures are available on the number of these jobs directly dependent on BL rather than other vehicle manufacturers. Thus, estimates based on official employment statistics must be viewed with caution.

An estimate of the number of jobs linked to the UK motor industry, based on input/output analysis, was included in a parliamentary select committee report published in 1975.[3] However, this method suffers from the drawbacks associated with official employment statistics as well as the fact that the available input/output tables are out of date. Input/output analysis offers some indication of the broad magnitude of the employment significance of the motor industry but it does not provide reliable figures on individual vehicles manufacturers such as BL. A revised estimate of the employment generated by BL using input/output analysis from the most recent census data would suffer from the same limitations.

Perhaps the most valid exercise is to analyse the value of goods purchased by BL from its main suppliers. In 1981 BL bought £460m of goods from its main supplying companies which were all British. It can be seen from Table II that these have already pursued a policy of diversification in order to make themselves less reliant on BL.

1 BL, *Report and Accounts*, 1982
2 Business Monitor PA 351, 352 & 353, *Report on the Census of Production 1980*, HMSO 1983
3 Parliamentary Select Committee on Expenditure, Trade and Industry Sub-Committee, 1974-75, *The Motor Vehicle Industry*, HC 617

TABLE 11 UK Component Suppliers: 1981

Company	turnover	Of which automotive %	Value of sales to BL	% of suppliers total sales
Dunlop	£1,569m	61%	£38m	4.0%
Lucas	1,072	80	128	12.0
GKN	1,961	42	95	5.0
Michelin	451	100	n.a.	n.a.
Associated Engineering	368	90	26	7.0
Burmah Oil	1,086	17	n.a.	n.a.
AP	197	94	36	18.0
British Steel	2,945	n.a.	57	1.8
Birmid Qualcast	178	51	26	12.0
Rubery Owen	60	30	9	15.0
Smiths Industries	367	15	23	8.0
Rockwell	$7040	n.a.	22	0.4

Source: *West Midlands County Council*, and company *Report and Accounts.*

BL has emphasised in the past that 95 per cent of what it buys in from suppliers is "British-based".[1] It must be noted that this definition will not only relate to original components but will also include financial services, computer software, factory maintenance, catering, etc.

The recent trend is for BL to purchase more of its equipment from foreign sources since this has offered significant cost advantages. Austin Rover, for example, places 15 per cent of its component business abroad.[2] This change in policy has already provoked concern amongst representative trade bodies such as the British Automotive Parts Promotion Council. Pressure has built up on the Government to compel BL to buy from domestic suppliers. It was recently reported that Austin Rover's Chairman, Mr Harold Musgrove, had been asked by the Government to delay the placement of new component contracts overseas.

1 See Sir Michael Edwardes' comments to the Parliamentary Select Committee 1980-81, *Finance for BL*, HC 294, page 49, question 179, and the 3rd Report 1981-82, *BL Ltd*, HC 194, page 301, question 49.

2 As reported in *The Times*, 5 January 1983

Such action puts BL in a difficult position. To meet its financial targets set by the Government it must contain costs. Forty to sixty per cent of the cost of a new car is accounted for by bought-in components.

BL has therefore sought to make savings in what it purchases from its suppliers. In some cases price quotations received from overseas manufacturers have been considerably less than those received from domestic suppliers. Government intervention to encourage BL to buy from UK companies will inevitably hamper BL's profitability and will act as a disincentive on UK suppliers to remain competitive.

If the Government wishes to protect the UK motor component industry, it could offer attractive investment loans under the existing Industry Act and new technology schemes. Well managed component suppliers should however be able to raise finance in the normal commercial manner.

Under state ownership BL has found that it must look for the most competitive supplier regardless of national origin. BL has indicated that it may wish to place up to 40 per cent of its future component expenditure overseas.[2] A new awareness of the need for strict quality standards has led to the replacement of some suppliers, most notably in the case of Jaguar. If BL companies are going to be successful in the future they will have to contain component costs. This may well mean that BL has to buy in more from abroad. It cannot afford to do otherwise, whether BL's subsidiaries continue under state ownership or are returned to the private sector.

1 Source: Parliamentary Select Committee on Industry and Trade, 3rd Report 1980-81, *Finance for BL*, HC 294, page 48, question 177; see also 3rd Report 1981-82, *BL Ltd*, HC 160-1, page 30, question 49.

2 Reported in *The Times*, 5 January 1983

10 INDUSTRIAL RELATIONS

BL has achieved substantial improvements in industrial relations over the last five years. This success is all the more impressive when one considers that the total workforce has been halved since 1977. The precise fall in the company's workforce is detailed in Table 12.

TABLE 12 BL: Number of employees ('000's) at year end[1]

	1977	1978	1979	1980	1981(Nov)	1982(Dec)
UK	176	164	146	120	96	80
Worldwide	22	23	23	23	23	23
Total	198	187	169	143	119	103

Table 13 compares the distribution of UK employees within the BL Group at the beginning of December 1982 with that of two years ago:

TABLE 13 Number of BL employees (000's) by operation 1980 & 1982

	Dec 1980[2]	Dec 1982[3]
BL Cars (Austin Rover, Jaguar)	68.0	45.0
Leyland Group	22.0	14.4
Unipart	5.0	5.2
Land Rover	15.0	11.6
Other Operations	10.0	3.7
Total	120.0	79.9

1 Source: Third Report 1981-82, Parliamentary Industry and Trade Select Committee, *BL Limited*, HC 160-i, page 8, and BL.

2 Source: Third Report, 1980-81, *Finance for BL*, Parliamentary Industry and Trade Select Committee, HC 294, page 62.

3 Source: BL.

From this breakdown it can be seen that the Cars division, along with the Leyland Group, have accounted for the major part of the reduction in manpower.

Although BL experienced two major disruptions in November 1981 — namely the two day stoppage over the pay offer to BL Cars' workers and the four week dispute at Longbridge — 98.5 per cent of all working time in 1981 was dispute free, the same figures as for 1980. This creditable performance was repeated in the first half of 1982 by the Cars Division where 99.8 per cent of all working time was dispute free. However, there was a serious disruption in the Leyland division over the need to rationalise manpower because of the recession in the commercial market. As a result of this dispute 1,956 man hours were lost in the first eight months of 1982. This figure accounted for 97 per cent of the total number of man hours lost through disputes within BL for the year up till September 1st. The overall figure for the company as a whole was nonetheless good: 98.4 per cent of all working time in 1982 was dispute free.

In Spring of 1982 new procedural agreements were signed between the company and the unions representing the car workers. This has helped to improve communications and resolve potential disputes at an early stage. However, one year later, these agreements were called into question at the Cowley plant. The drive to establish new working procedures on the Maestro production line led to a four week strike by the workforce in April 1983, which meant the loss of 19,000 cars with a retail value of £100m.

Over the last five years BL has managed to contain wage settlements. Between 1978 and 1982 basic rates were increased as follows:[1]

1978/79	5.0%
1979/80	5.0%
1980/81	6.8%
1981/82	3.8%

Average earnings have risen much faster. When productivity bonus payments are taken into account employees' gross pay increased by 77 per cent between 1977 and 1982.[2]

In October 1982 a new two year pay agreement was agreed for BL Cars' hourly paid employees. Under this agreement, which came into force on 1 November 1982, BL Cars' workers receive an extra 5.6 per cent in basic pay, equivalent to £5.50 a week, plus a similar amount in 1983.

In addition employees benefit from BL Cars' improved productivity. In the first half of 1981 they received on average a weekly bonus of £7, an average payment which was more than doubled to £17 in the first half of 1982. Workers currently earn over £20 a week in bonus payments. In real terms, BL Cars' hourly paid staff saw their earnings increase by 14.2 per cent in the first six months of 1982 compared with the same period the previous year.

BL's productivity performance and industrial relations record have shown marked improvements since the introduction of the incentive scheme in the Cars' division in late 1979.

1 *The Imported Motor Cars – is it always a fair trade?* BL 1982
2 Ibid

11 CONCLUSION

Over the next few years BL will have to raise large sums for capital investment on new models. Apart from a further request for government aid BL can try to finance this expenditure in three ways:

First, as the Board has already indicated, the company can seek to borrow from the private sector. This will be difficult in so far as BL can only show a trading record of sustained losses up till the first half of 1983. However, it can use the successful parts of the Group as security for any commercial loans. The company has also benefitted from an implicit Treasury guarantee that any commercial bank loans will be underwritten by the government. This effectively means that BL can raise private sector capital relatively easily once it has managed to secure government agreement.

Secondly, BL companies can try to generate working capital through profitable trading activities. This is dependent on the success of models and the limitation of production costs. Jaguar is profitable and has financed its investment requirements in 1983.[1] Unipart and Land Rover remain profitable but Leyland is running at a loss and shows no sign of trading profitably for at least another 2 years. Austin Rover is once again profitable but it is unlikely to be able to self-finance the whole of its capital investment. The capital required for the development of a new model range is substantial. Ford invested a total of £660m in the development of the Sierra, £250m of which was spent in the UK. The company spent £100m alone on the modernisation of its Dagenham body plant.[2]

Thirdly, BL can raise cash by the sale of parts of its business. This not only helps to finance future investment but complies with the Government's stated policy in favour of returning the Group to the private sector. If the Government is to avoid further calls for cash support or the guaranteeing of commercial bank loans, it will have to insist on a clear policy of disposal.

1 Source: Jaguar Cars Limited
2 Source: Ford Press Office

12 RECOMMENDATIONS

The following proposals would seem to present a coherent strategy for government policy towards BL over the next year.

1) Separate reports and accounts should be **published** for each of BL's subsidiary car companies so that potential buyers and tax payers can reach an informed view on their performance.
2) The Department of Trade & Industry should commission independent experts to review BL's performance and recommend detailed proposals by mid 1984.
3) It makes sound business sense to promote further joint ventures. BL's co-operation with other motor manufacturers, such as the Acclaim project with Honda and the transmission development programme with Volkswagen, have proved successful. They help reduce the capital development costs and introduce private investment capital within the state owned Group. However, care should be exercised to ensure that such co-operation should not interfere with the Government's declared intention to return BL to the private sector.
4) A number of BL's subsidiaries are ready to be sold. The most obvious candidate is Jaguar which has shown rapid improvement under its current management. The other profitable parts of the business — Land Rover and Unipart — could also be sold to private buyers.

Unipart is one of the best candidates within the BL Group for privatisation. It is sometimes claimed that its close commercial relationship with BL would suffer if it were to be returned to the private sector. A change in ownership would be immaterial to the Group's trading relationships, which ought to be primarily based on its market competitiveness. This is a view confidently held by Unipart's present management who see major opportunities for developing the company's distribution network.[1]

Leyland vehicles and the Austin Rover volume cars division present a more difficult problem. Much depends on the performance of Austin Rover's model range. If the Maestro and its derivatives sell in sufficient numbers the volume car business will begin to make substantial profits.

It is unlikely that any one buyer will be found in Britain or Europe for these companies. The general trend throughout western Europe towards protectionism and stricter import controls suggests that the most interested purchaser would be a Japanese motor manufacturer. Such a deal would save a further addition to the over-capacity already evident in the European motor industry.

1 See *The Observer*, 27 February 1983