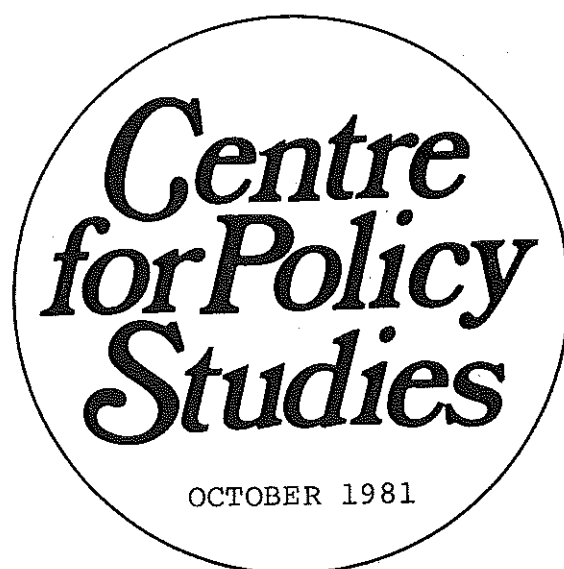


BRITISH LEYLAND

A VIABLE FUTURE?



by

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FOREWORD

This study is the result of work done by the Nationalised Industries Study Group of the Centre for Policy Studies. It has been compiled by Elizabeth Cottrell and Keith Boyfield. They wish to thank all who have helped them, especially Juliet Heywood, John Hatch, John Oakley, John Redwood and Dr Alex Rubner.

INTRODUCTION

An all-out strike and consequent break-up of BL have just been averted. But this closely argued and thoroughly documented study suggests that so long as BL exists as a single state-owned entity, subject to cross subsidisation, the weaknesses which have made it a burden for the economy and a focus of political contention will remain irremediable.

These proposals do not ask for the closure or liquidation of BL, but for its dismantling and re-structuring. The study argues for phased disengagement to allow BL to be reabsorbed creatively into the economy. In other hands profitable parts of the Group would remain profitable while those parts capable of becoming profitable would realise their potential. Those which remained unviable would be disposed of in the best way possible.

The whole history of BL, from Mr Benn's early attempts to solve the problems of those firms which were badly managed, over-manned, and inefficient by putting them into one barrel with those that were viable, has predictably demonstrated the truth of the old proverb. The question now is not whether Britain should have a motor industry, but how Britain can have healthy industries, as other countries manage to do.

This is an intellectually rigorous analysis which makes radical proposals - radical in the sense that they advocate action to change the status quo. These may encounter opposition from those who feel that nothing once done, however unreasonable or harmful, can be undone. The Centre for Policy Studies was founded in the belief that reasoned study and exposition of the workings of cause and effect in human affairs can pave the way for better policies. It is with that conviction that we present this contribution to discussion about the future of British Leyland.

Alfred Sherman  
Director of Studies

October 1981

### III

#### CONTENTS

		<u>Page Number</u>
SECTION I	SUMMARY OF RECOMMENDATIONS	1
SECTION II	GOVERNMENT FUNDING TO BL	2
SECTION III: 1	THE NATURE OF THE MOTOR INDUSTRY: THE INTERNATIONAL DIMENSION	3
SECTION III: 2	THE BL GROUP: PROFITS RECORD	5
SECTION III: 3	OUTPUT RECORD	7
SECTION III: 4	BL'S EXPORT RECORD	9
SECTION IV	PROPOSALS	12
SECTION V	POSSIBLE OBJECTIONS TO THIS PLAN	14
CONCLUSION		17
APPENDIX A	CAR PRODUCTION TRENDS OF LEADING COUNTRIES 1960-1980	18
APPENDIX B	COMMERCIAL VEHICLE PRODUCTION TRENDS OF LEADING COUNTRIES 1960-1980	19
APPENDIX C	THE INTERNATIONAL CAR: FORD FIESTA	21



## SECTION I

BRITISH LEYLAND - SUMMARY OF RECOMMENDATIONS

Despite an investment of over £1,700 million by the British taxpayer, this leviathan is still a long way from financial viability.

We seek to present proposals with a view to ensuring the future of the UK car industry and its component and other suppliers.

An equally important objective is the return of BL to the private sector in order to bring about the necessary managerial and other disciplinary sanctions.

PROPOSALS

- (i) The division of BL into a number of independent Company Act companies with a view to their individual sale. Opportunities for sales have been missed during the past two years for lack of an appropriate business structure.
- (ii) The Secretary of State as the shareholders' representative to endeavour to set a timetable for equity sale, having regard to the profitability of the units concerned and the general financial climate.
- (iii) Resources forthcoming from sales to finance future volume car investment and meet a dividend.
- (iv) If the volume car division remains unsold, the Government should accept responsibility for a limited number of years, say 3. There should be a firm understanding that no further Government support would be forthcoming after that period.
- (v) This should provide increased opportunities for the UK component industry with possible additional growth from exports.
- (vi) Existing shareholders could well be given advantageous terms in the equities offered.

We wish to emphasise that we are not proposing the closure of BL but seek Government disengagement in the best possible circumstances.

BL's future should be planned so as to secure the long term objective of its return to the private sector. Hitherto, opportunities and appropriate timing appear to have been forfeit to year on year plan.

## SECTION II

GOVERNMENT FUNDING TO BL

"BL's losses are currently running at more than £1000 a minute - or over £1.5 million a day. They are losing the equivalent of £1000 on every car they produce and every man, woman and child in Britain would have to contribute £10 to cover the losses projected for 1981 after stumping up a similar sum for last year's." (Car Magazine, September 1981)

The Government has invested £1745 million of public funds into the BL Group to date (August 1981), on which neither interest nor dividend has been paid. A commercial company of similar size such as Rio Tinto-Zinc would have paid about 16 per cent interest charge on this amount last year. This represents a hidden subsidy by the taxpayer of some £280 million per annum. Actual Government spending on BL since 1975 is as follows:

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; £150 Section 8, Industry Act 1972)
1979/80	£25m	Equity committed (but not yet all provided) to 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)

Thus, the Government has provided £1321 million of public finance to BL up till March 1981. The Government has approved further expenditure of £620 million in the financial year 1981/82, with an additional £370 million equity investment in the financial year 1982/83. BL's Corporate Plan 1981 includes a request for £150 million of extra Government finance for the financial year 1983/84.\*

\* Source: Parliamentary Select Committee on Industry & Trade, 3rd Report 1980-81 'Finance for BL', HC 294.



## SECTION III: 1

THE NATURE OF THE MOTOR INDUSTRY: THE INTERNATIONAL DIMENSION

Economies of scale have dictated an ever-increasing trend towards the rationalisation of the motor industry world-wide. Both car production and the car market have become international: motor manufacturers now regard the EEC as one domestic market with component and assembly plants located in a number of different countries. The same is true of the bus and truck sector. For their part, the major American manufacturers have developed the concept of the "world car" (eg the Ford Escort or the GM "J" car), which can be produced in a variety of countries using common parts and components, thus reducing costs.

In an effort to become more efficient, productive and profitable, European manufacturers have sought to merge their operations or, alternatively, enter into joint ventures with other car companies. Examples of the former trend are the Peugeot-Citroen-Talbot merger and the Fiat-Lancia combine. A number of European manufacturers have signed joint venture deals with Japanese manufacturers, namely Innocenti with Daihatsu, VW and Alfa Romeo with Nissan, and BL with Honda.

Yet another similar development has been the equity investment by major motor manufacturers in foreign competitors, such as Renault's 46 per cent in the American Motor Company, Ford's 25 per cent in Toyo Kogyo (Mazda) and GM's 34 per cent in Isuzu.

National trends in car and vehicle production, together with a breakdown of export share and share of total world production over the last 20 years, are shown in Appendices A and B.

Many experts believe that by 1990 the international car market will be dominated by ten major motor manufacturers at most, each capable of producing a minimum of 2 million vehicles a year. In 1980, BL was twenty-second in the world league table of principal motor manufacturers (source: Argus de l'Automobile) whereas European competitors such as Renault were placed fifth, VW/Audi fourth, Fiat seventh, Peugeot/Citroen eighth, and Ford Europe ninth. The independent forecasting unit Economic Models has recently predicted that without import controls, BL's domestic market share will steadily deteriorate over the next few years to 16.4 per cent in 1985. This would suggest that there is a limited future for BL in its present form manufacturing a relatively low volume of vehicles in an increasingly competitive market.

BL is at present handicapped by the sheer diversity of activities in which it is engaged - trucks, buses, 4-wheel drive, spare parts and a large range of car models. Admittedly, the company is trying to rationalise down to three basic models. This policy is dictated by necessity: there is insufficient cash to invest in the development of a new Rover model. However, it appears that one of the fundamental problems of BL is that it is trying to do too much with relatively limited resources. The continued existence

of BL as a separate entity militates against the success of each of its constituent parts. In the meantime, a number of opportunities have been missed to transfer parts of the company to the private sector, namely MG and Rover. The Leyland Group might have attracted a number of buyers two years ago but it would now appear difficult to sell. The danger associated with the present Government policy towards BL is that the profitable parts of the Group may be jeopardized for the sake of the future of the Group as a whole.

## SECTION III: 2

THE BL GROUP: PROFITS RECORD

Any attempt to analyse BL's financial performance is hampered by the fact that the company refuses to give any financial information concerning its subsidiary companies. This is at odds with BL's public image of a company eager to decentralise into "four distinct entities"\* and only too willing to provide information on progress. Thus potential buyers of parts of the BL Group have little idea of the profitability (or otherwise) of the subsidiary companies in which they might be interested. This is a glaring omission which needs to be rectified immediately. In comparison with foreign car manufacturers such as Renault or Daimler-Benz the company information contained in BL's Annual Report and Accounts is minimal.

Some indication of the performance of the four separate BL businesses was given in BL's latest Interim Statement (September 1981). From this the public are informed that both Unipart and Land-Rover are making "unacceptably low profits" whilst the Leyland Group made a trading loss of £47 million to 1 July 1981 compared with a profit of £7 million in the first half of 1980, and the Cars Group made a trading loss of £90 million compared with £124 million.

One can put together the following table on the performance of BL Cars from information given in each year's Annual Report and Accounts.

BL Car Sales and Trading Results\*\*

	<u>Sales</u>	<u>Profit/(loss)</u>
1975	1,761	(82.0)
1976	2,707	59.9
1977	2,412	(5.3)
1978	2,859	18.0
1979	2,060	(45.0)
1980	1,928	(266.0)

BL cars' market share has steadily declined over the last five years:

	1975	1976	1977	1978	1979	1980
UK	30.9	27.4	24.3	23.4	19.6	18.2***

\* R Horrocks, The Director, July 1981, page 28

\*\* Source: BL Annual Reports and Accounts

\*\*\* Source: Society of Motor Manufacturers and Traders

What is Required

Henceforth we regard it as essential for BL to provide:

- (i) balance sheet
- (ii) profit and loss account
- (iii) details of source and application of funds for each subsidiary company, namely:

Austin Morris Ltd

Jaguar Cars Ltd

Rover Triumph Cars Ltd

Land Rover Ltd

Unipart Ltd

Pressed Steel Fisher Ltd

Coventry Climax Ltd

Leyland Vehicles Ltd

Self-Changing Gears Ltd

Aveling Barford Ltd

BL Systems Ltd

BL Technology Ltd

Overseas Interests

## SECTION III: 3

OUTPUT RECORD

BL's productivity record, despite recent improvements, is still poor by international standards. As Sir Michael Edwardes said recently: "Although the Cars Group has made considerable progress in raising productivity, it still has a long way to go to match the best of its European and Japanese competitors".

In its evidence to the Parliamentary Select Committee on Industry and Trade, BL claimed a productivity figure in 1980 of 5.0 vehicles per man per year for BL Cars. However, an analysis of the latest BL Annual Report and Accounts gives a different picture for the Group as a whole.

<u>BL (Worldwide figures)</u>	<u>1976</u> <sup>1</sup>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Vehicle unit sales/production <sup>2</sup> ( '000)	981	785	797	658	547
Weekly average number of employees ( '000)	183	195	192	177	157
Output per man per year	4.28	4.03	4.15	3.17	3.48

<u>Below are some Figures for Comparable European Manufacturers</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
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AUDI<sup>3</sup> (German production only:  
source: Audi Annual Report  
and Accounts 1980)

Vehicle unit production ( '000)	260	339	317	344	300
Number of employees ( '000)	25	28	28	30	29
Output per man year	10	12	11	11	10

FIAT (Worldwide production:  
source: Fiat SpA and Annual  
Report and Accounts 1980)

Vehicle unit production ( '000)	1491	1503	1560	1594 (1310) <sup>4</sup>	1598 (1352)
Number of employees ( '000)	204	212	219	228 (173)	219 (168)
Output per man per year	7.3	7.0	7.1	7.0 (7.5)	7.2 (8.0)

<u>Figures for Comparable</u> <u>European Manufacturers cont</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
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RENAULT (French production only: source Renault Annual Report and Accounts 1980)

Vehicle unit production ( '000)				1295	1351
Number of employees ( '000)				137	135
Output per man per year				9.45	10.0

DAIMLER-BENZ (German production only: source: Daimler-Benz Annual Report and Accounts 1980)

Vehicle unit production ( '000)				611	632
Number of employees ( '000)				142	146
Output per man per year				4.3	4.3

On these figures BL is only really competitive with Daimler-Benz, but this is a high quality car manufacturer with an enormous R & D division.

If one considers comparable Japanese manufacturers the difference is even more marked:

TOYOTA: Japan's largest motor manufacturer produced 3,300,000 vehicles in 1980 with a total workforce of 46,000, giving an output per man year figure of 71.74 (source: Japanese Embassy).

HONDA: Japan's fifth largest motor manufacturer achieves an output per man year figure of 120 in its Suzuki plant (source: BLISS - BL Independent Shareholders' Society).<sup>5</sup>

BL's overmanning is financed by taxpayers' money. Each car produced in 1980 was effectively subsidized by £660.00.

- 1 The figures for 1976 are for the 15 months ended 31 December.
- 2 The BL figures for 1976, 1977, 1978 are sales figures as production figures do not appear in the Annual Report and Accounts. The figures for 1979 and 1980 are production figures, which appear on page 29 of the Report from the Parliamentary Select Committee on Industry and Trade, 1980-81, 'Finance for BL' HC 294.
- 3 Audi manufactures only cars: all other manufacturers' figures include commercial vehicles.
- 4 The figures in brackets are for Italy alone.
- 5 It should be noted that Japanese firms use a large proportion of ready-assembled parts, which result in higher output figures.

## SECTION III: 4

BL'S EXPORT RECORD

BL's export record is poor. The dealer network is moribund, due mainly to the fact that they have few competitive models to sell. It is striking to note that the only BL model now sold in the USA is the Jaguar. Yet our EEC partners now view the UK as one of their best export markets. The following tables contrast BL car exports to Europe with the number of cars imported into the UK from the EEC.

BL Car Export Sales to EEC countries: 1980

(source: "L'Argus de l'Automobile", Paris, July 1981)

	<u>F.R.G.</u>	<u>Italy</u>	<u>Holland</u>	<u>Belgium</u>	<u>France</u>	<u>Totals</u>
Austin Morris	2,593	10,000	5,369	3,912	16,781	38,655
Jaguar/Daimler	183	-	475	449	355	1,292
Rover	2,845	1,300	1,208	595	2,914	8,862
Triumph	1,091	800	294	349	575	2,534
<u>TOTAL</u>	<u>6,712</u>	<u>12,100</u>	<u>7,346</u>	<u>5,305</u>	<u>20,625</u>	<u>52,088</u>

UK Car Import Sales from EEC countries: 1980

(source: "L'Argus de l'Automobile", Paris, July 1981)

<u>Manufacturer/Country</u>	<u>Number of Cars</u>
<u>Germany</u>	
Audi	17,000
BMW	13,451
Ford	134,226
VW	51,285
Mercedes-Benz	8,876
Opel	22,870
<u>Total</u>	<u>247,708</u>
<u>France</u>	
Citroen	27,006
Peugeot	24,333
Renault	88,343
Talbot	25,481
<u>Total</u>	<u>165,163</u>

UK Car Import Sales from EEC Countries: 1980 (cont)

<u>Manufacturer/Country</u>	<u>Number of Cars</u>
<u>Italy</u>	
Alfa Romeo	10,219
Fiat	43,191
Lancia	6,032
Total	<u>59,442</u>
<u>Holland</u>	
Volvo	<u>16,718</u>

The unfavourable trading balance between the UK and its EEC partners is evident from these figures. Throughout the price range, BL's trading performance is considerably worse than any of its major European competitors. For example, at the top of the range, Jaguar sell 183 cars in West Germany, whereas Mercedes-Benz sell 8,876 cars to British customers, and BMW 13,451. Lower down the price range, Austin Morris sell 16,781 cars in France, yet Renault are able to sell 88,343 cars in the UK.

The table below gives an analysis of BL's dealer network in various EEC countries, the total number of cars sold and the average number of cars sold per dealer in 1980. These averages compare poorly with the 91.08 average set by Renault's 970 British dealers in 1980, and the 93.41 average set by BMW's UK dealer network of 144.

	<u>Belgium</u> <u>@ 4/81</u>	<u>France</u> <u>@ 4/81</u>	<u>W Germany</u> <u>@ 7/81</u>	<u>Italy</u> <u>@ 8/81</u>	<u>Holland</u> <u>@ 4/81</u>
Total cars sold <sup>1</sup>	5,305	20,625	6,712	12,100	7,346
Number of dealers <sup>2</sup>	144	384	297	515	159
Average number of cars sold per dealer	36.8	53.7	22.6	23.5	46.2

1 Source: "L'Argus de l'Automobile", Paris, July 1981  
Note: Number of cars sold in 1980

2 Source: BL  
Note: Dealer statistics refer to 1981



## SECTION IV

PROPOSALS1 BL's Company Structure

Positive action is needed to establish the right business structure for a return of as much as possible of the BL Group to the private sector. The Secretary of State should require that BL's four business divisions are made into separate Company Act companies. This would ensure that proper financial information is available on each business to any potential buyer (as recommended in SECTION III: 3 above). Furthermore the Cars division should be restructured into four Company Act companies - Jaguar/Daimler; Rover; Triumph; and Austin/Morris. The net effect of this measure would be the break-up of the BL monolith into businesses which it is feasible to offer for sale. It would also allow the public to judge the success or failure of each business.

2 The Role of the Secretary of State

Bids for companies within the BL Group should be directed first to the Secretary of State, as the shareholders' representative, rather than to the BL Group Chairman. Any serious offer should be given appropriate consideration with the emphasis towards the sale of the company concerned. The Secretary of State might also be charged with the duty of considering the floatation of equity in any of the profitable companies in the BL Group, eg Land-Rover.

3 What to do with the Realised Assets

The capital sum realised from the successful sale of any of the companies presently within the BL Group should be used in one of two ways. Firstly, it could be used to pay a dividend to the Exchequer, as a small return on the vast public investment to date in the Group. Secondly, a proportion of the capital realised might be ploughed back to finance profitable investment in the BL Group.

4 Volume Cars

Problems might be anticipated with the sale of the volume cars division although it should be remembered that the Mini-Metro production line is the most efficient within the Group. If Austin-Morris remains unsold or an equity floatation proves unpopular, the Government must decide whether to accept responsibility for the company. If it does so, it should be on the express understanding that this decision is taken for political reasons - ie the need to subsidise employment while the business is given time to reorganise and become profitable. A strict time-table should be set, say three years, after which time the company should be either sold or positively liquidated.

If one takes BL's US sales performance the picture is equally poor:

<u>Year 1980<sup>1</sup></u>	<u>Total number of cars sold</u>	<u>Number of dealers</u>	<u>Average number of cars sold per dealer</u>
MG	13,410	309	43.4
Triumph	14,156	300	47.2
Rover	417	117	3.6
Jaguar	2,885	233	12.4

Rover, MG and Triumph marques are no longer sold in the USA<sup>2</sup>, which effectively leaves BL with a network of 233 dealers, many of whom sell several other makes of car.

1 Source: BL  
Note: Dealer statistics refer to 1981

2 Source: Speech by Sir Michael Edwardes to American Chamber of Commerce (UK), 17 June 1981

## 5 Finance

Any part of BL which is not immediately saleable should be encouraged to seek investment capital from the market, thus submitting its capital requirement plans to the market test. There should be no Treasury guarantee offered on this investment - if BL fails to meet the interest payments on private capital borrowed the Group should be forced to sell off assets in the normal commercial manner. This would restore the necessary financial discipline on management decisions which have been so far absent. The Government's role as banker should be one of the lender of last resort.

Note: It should be emphasised that this paper does not argue for the immediate closure of BL, which would have serious knock-on effects within the motor and component industries. It seeks, rather, to put forward a plan for Government disengagement from the motor sector with a view to ensuring the long-term security of employment for employees of both the BL Group and its supplying companies.

## SECTION V

POSSIBLE OJECTIONS TO THIS PLAN1 BL as a Corporation is Sacrosanct

On past experience the management will seek to retain its empire in the face of political pressure. In this effort they will be able to count on strong support from the innately conservative trade unions. This attitude of mind was reflected in the remarks made by BL's Chairman at the press conference to announce the 1981 interim results. The Institute of Directors' suggestion that parts of the company might be sold off was dismissed as "very ill informed comment".

Another indication of this stance is the company's claim that Jaguar should not be offered for sale in the interests of the Group's American dealer network. Since the closure of MG, the ending of TR7 production and the failure of the Rover to sell, the fact is that the only car currently sold in America is the Jaguar. Not surprisingly, Car\* magazine recently described BL's US dealer network as "depleted and demoralized". BL looks to this network as the basis for a future mini metro sales drive. This strategy seems dubious: the two models are at opposite ends of the price spectrum and Jaguar dealers tend to be specialists in expensive European marques such as Ferrari and Porsche.

The restructuring plan outlined in SECTION IV seeks to encourage the profitable parts of BL to expand and become fully independent, thus helping secure employment for the future.

2 Absence of Possible Buyers

This objection is disproved by the facts. A consortium headed by Alan Curtis, now director of Lotus Cars, made a serious bid for the prestigious MG marque and factory at Abingdon. However, BL management rejected this offer, closed the plant, sacked the workforce, and proceeded with plans to place the MG badge on a Mini-Metro.

Similarly, a syndicate led by David Gilroy Bevan MP made a bid of £15 million for the Rover marque and factory at Solihull. Again, this offer was declined.

On this evidence BL appear to discourage bids for part of the Group. Instead, the company closes plants - the net assets of the individual subsidiary companies - and merely maintains the marque name.

According to a report in the Financial Times (3.7.81), Sir Michael Edwardes is hoping to use the profitable parts of BL as "attractive bargaining counters in any future deal involving the loss making cars division". He feels the offer of a share in Land-Rover or Unipart might help to promote a reciprocal arrangement with a major motor manufacturer covering the development of a whole range of cars. We think this a misjudgement of the situation. A sounder strategy would be to realise the current asset value of the successful companies in the Group, rather than rely on a possible buyer for a share in the whole Group at some future unspecified date.

At present, there seems a good chance of finding buyers for Land-Rover, Unipart, Rover and possibly Jaguar/Daimler. But it should be emphasised that all BL's subsidiaries should be put on open offer with a clear public statement by the Secretary of State that bids would be welcome for any part of BL. This move in itself will promote interest. The Alvis sale is a case in point. Peter Levene, Managing Director of United Scientific Holdings, Alvis's new owner, is quoted as saying, "As soon as I saw that (Financial Times) report that Alvis was up for sale, I wrote to BL."

### 3 The Component Industry - a Risk to Jobs?

Immediate closure of BL would, of course, have a serious effect on the UK component industry. However, this is not being suggested. On the contrary, the successful sale of say three of the four BL business divisions will help to safeguard jobs in the UK component industry.

Educated estimates derived from the available statistics would suggest that the number of jobs claimed to be dependent on the continuation of BL in its present form are often exaggerated. For example, BL's Chairman claims that the ratio between the number of people employed within BL and the number of people employed in BL's supplier and service industries is nearly 3:1\*. Yet the real ratio is more likely to be in the region of 1:1, which is the figure accepted by the Department of Industry. BL claim to spend £2 billion a year on UK components. Thirty per cent of this £2 billion goes directly on wages and salaries within the component sector, ie £600 million. Calculating the average pay within this sector to be £6,000 per annum, which is a generous estimate, a simple division sum indicates the number of jobs directly dependent on BL - 100,000. This figure compares with BL's total payroll of 129,000<sup>1</sup>. It should be recognised that this calculation does not allow for spillover effects on ancillary suppliers. On the other hand, these are offset by supplies and materials imported by component manufacturers, and the taxes imposed on profitable business sectors to support BL's losses and investment programme. Furthermore, BL claim to be sourced with 95 per cent UK components<sup>2</sup>, but their definition of component must be an all-embracing one to arrive at this figure - factory maintenance, financial services, computer software, etc, being included.

Nor is BL the UK car industry - Ford, Vauxhall, Talbot and various specialist manufacturers produce vehicles in Britain. BL Cars' share of total UK car production fell from 47.06 per cent in 1979 to 42.84 per cent in 1980. Moreover, foreign manufacturers are beginning to set up new plants in the UK, for example, Volvo in Scotland and the proposed Nissan plant. These will offer a substantial new market to the domestic component industry, if its quality, price, and delivery times are competitive.

1 Employees world-wide as of 1 July 1981, source: BL Interim Results.

2 Source: Parliamentary Select Committee on Industry and Trade, 3rd Report 1980-81 'Finance for BL', HC 294, Question 177, page 48

As detailed in SECTION III: 1 the motor industry is becoming more and more international with major manufacturers purchasing parts and components from companies located in a number of different countries, eg Ford now buys tyres from Goodyear, Firestone and Michelin. This diversity of supply is shown graphically in the diagram of the Ford Fiesta in Appendix C. Nowadays such cars can seldom claim any nationality. It is therefore unrealistic to think in terms of an all British car assembled out of 100 per cent UK manufactured components.

The larger British component manufacturers have already recognised this trend and are concentrating increasingly on export-led growth. The industry currently exports around £1,900 million worth of components annually (source: British Automotive Parts Promotion Council). Volvo, who claim to make the most British foreign car of all, spend £125 million per year on UK components.

Britain is an extremely successful exporter of services connected with the motor industry. Talbot's Coventry based design offices are responsible for Talbot's French built Alpine and Horizon models.

Moreover, major component firms such as Lucas have expanded their foreign operations. The Lucas subsidiary in France, Ducellier, supply electrics for all four major French makes of car, as well as supplying parts for Fiat and Alfa-Romeo in Italy, Saab in Sweden and Ford and VW in Germany; the company's Italian subsidiary, Carello, supply lighting equipment for nearly every Italian make of car.

A clearly defined three year corporate plan for BL's volume car business will allow UK component manufacturers to plan ahead with greater certainty, fully aware of where they stand.

#### 4 The Position of Existing BL Private Shareholders

This should present no difficulties. There are at present 85,000 shareholders owning 0.39 per cent of the equity capital in BL of whom only 800 own more than 1000 shares (source: BLISS). The division and sale of assets could provide private shareholders and the taxpayer with a dividend on their investment. Private shareholders together with BL employees might well be offered advantageous terms for the acquisition of equity in the new Company Act companies.

## CONCLUSION

This paper makes general recommendations on future Government policy towards British Leyland. The threat of closure which now hangs over the company makes it necessary to emphasise certain aspects of the problem.

One of the main considerations if BL were to close would be the consequent unemployment in the component industry. Estimates of this, however, have been grossly exaggerated. Union leaders have talked of anything between 500,000 and 2 million jobs being at stake in BL and its suppliers. The Guardian (19.10.81) made the categorical statement that 500,000 to 750,000 workers would be out of a job while the Daily Telegraph (17.10.81) postulated a figure of  $\frac{1}{2}$  a million. We believe, as we have said in the paper, that the Department of Industry's figure is more likely to be correct and the number would be nearer 230,000. Even this assumes a complete close-down of the whole of BL in one fell swoop, makes no allowance for successful sale of part or all of the Group, as envisaged in the paper, or indeed of the servicing of BL vehicles already on the road. While this figure of 230,000 does not allow for the possible spill-over of unemployment into ancillary industries and services neither does it take into account the taxpayers' money which, released from the support of BL, would be available to come back into the system in other ways, thus helping to provide new jobs. This is an important point.

But, it is said, BL does not merely provide jobs for the UK component industry. It provides it with a working base especially for research and development. As BL itself depends less and less on British components this base is already being eroded. Moreover BL is not the only British car manufacturer and once the Japanese are safely committed to establishing one or more UK car-plants the dependence of the component industry on BL will be even less. Whatever the outcome of the present BL crisis it is important that the proposed Nissan project should go ahead quickly. Similarly a Japanese takeover of some BL factories, suggested in recent press reports (eg Sunday Express, 18.10.81), would mean continued business for the UK component industry, if they proved themselves capable and competitive.

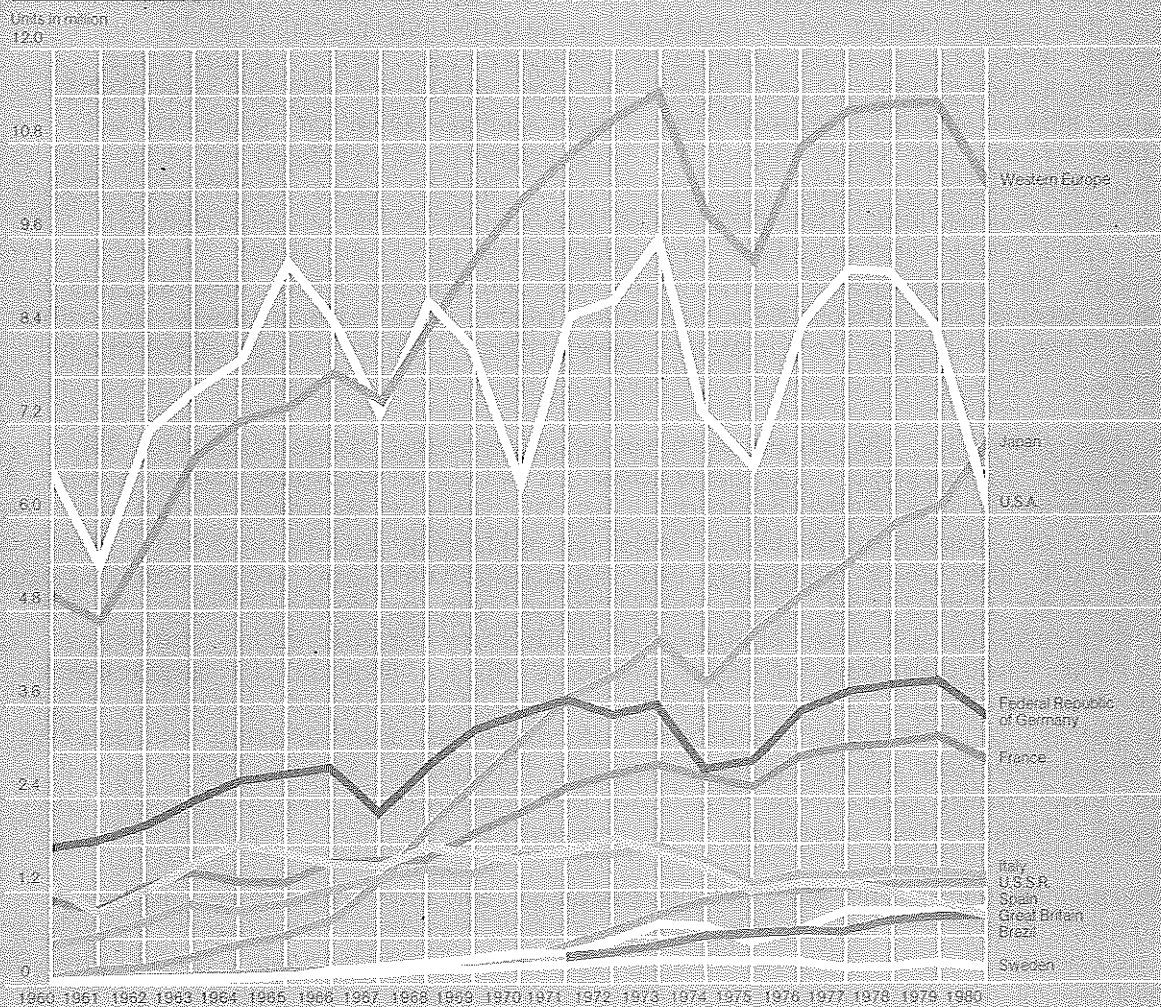
Discussion with the Minister (Trade) at the Japanese Embassy suggests that the main obstacle which hinders Japanese developments in Britain is the Labour Party threat of withdrawal from the EEC. Commitment to the Community should therefore be emphasised.

If the BL work-force was dismissed as a result of a strike this would presumably mean that they were not entitled to redundancy pay. While this would reduce the direct cost of closure it might have serious political repercussions in the trade union movement. Moreover it would presumably mean that BL could not be sold as a going concern which would seriously reduce its value and jeopardize the future of the British motor industry.

The proposals which are made in this paper do not affect the financial commitment from the Government which was given the approval of the BL Corporate Plan. This will necessitate a revised Plan and new terms of reference for the Chairman and Board - instructing them to pursue actively the policies outlined here.

## APPENDIX A

## Car Production Trends of Leading Countries 1960-1980



Share of Total World Production in %

1960	1965	1970	1975	1976	1977	1978	1979	1980
14.2	14.2	15.6	11.5	12.2	12.3	12.3	12.5	12.1
9.0	7.1	10.0	10.1	10.2	10.0	8.8	10.2	10.0
10.6	8.9	7.0	5.0	4.6	4.2	3.9	3.4	3.3
4.4	5.7	7.6	5.4	5.0	4.7	4.8	4.7	4.3
0.9	0.9	1.2	1.3	1.1	0.8	0.8	0.9	0.6
0.3	0.8	2.0	2.8	2.6	3.2	3.1	3.1	3.5
1.1	1.1	1.5	4.8	4.2	4.1	4.1	4.2	4.6
1.3	3.6	14.1	18.1	17.2	17.6	18.1	19.8	24.1
52.4	48.6	29.0	26.6	29.2	29.8	29.0	26.8	21.8
0.3	0.5	1.1	3.1	2.9	2.5	2.9	3.0	3.4

Export Share of Total Production in %

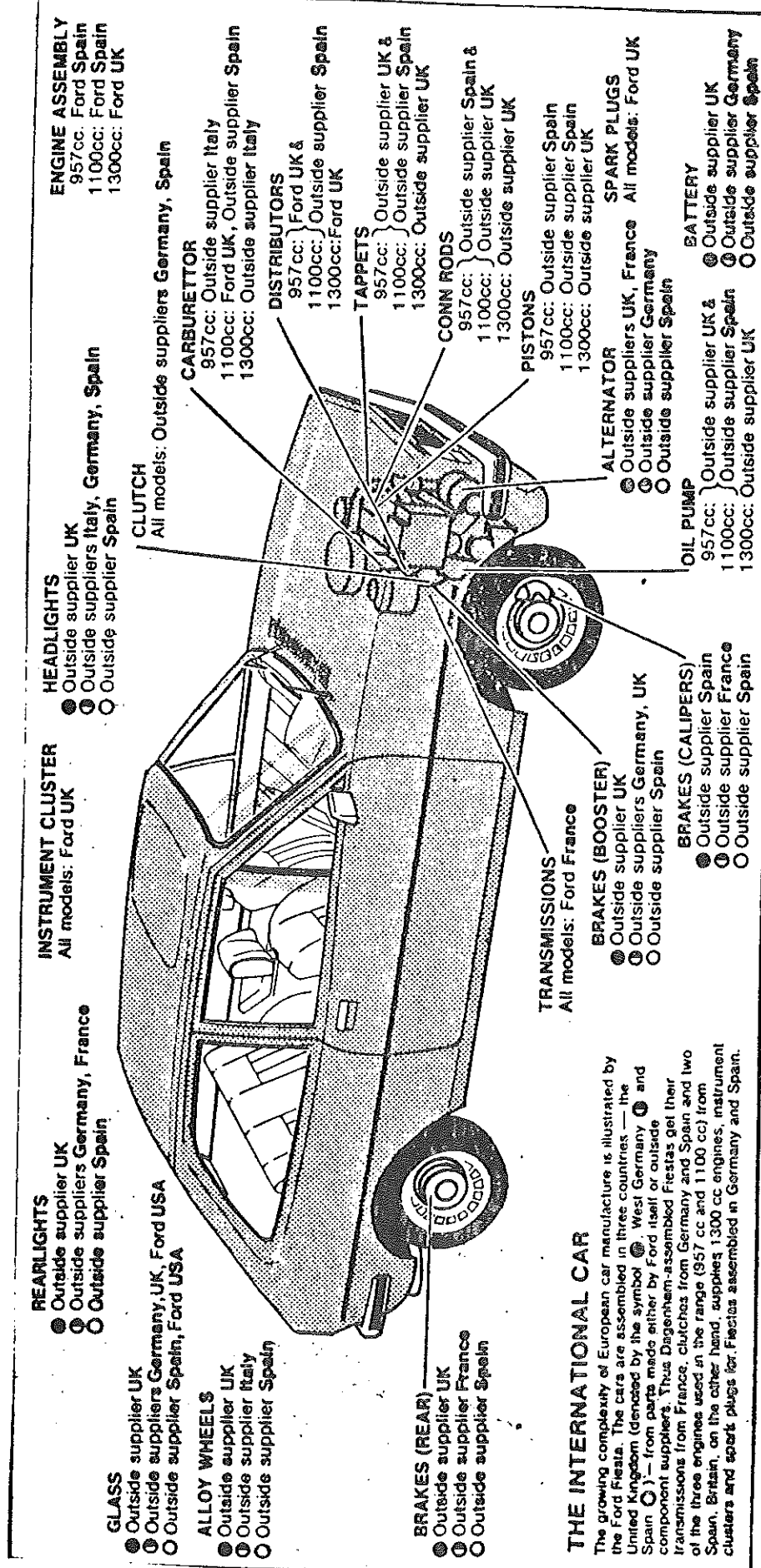
1960	1965	1970	1975	1976	1977	1978	1979	1980
47.6	51.9	55.2	50.8	51.8	51.2	49.0	50.8	53.2
44.7	37.0	52.6	53.8	59.5	52.4	50.8	52.7	52.1
42.1	35.4	42.1	40.7	37.2	36.1	38.1	38.3	37.5
33.2	28.2	36.8	49.0	47.3	44.7	42.4	43.7	35.4
44.7	46.3	66.9	65.7	63.8	76.7	81.3	80.3	80.2
		8.2	20.8	22.0	31.8	37.9	41.1	47.8
	24.2	26.7	26.8	29.1	28.3	29.6	29.9	29.9
4.2	14.5	22.8	40.0	50.5	54.5	49.0	50.2	58.1
2.2	2.2	5.6	9.5	7.8	7.5	7.3	8.8	8.8
		7.3	8.0	7.6	9.0	8.5	12.3	







# APPENDIX C THE INTERNATIONAL CAR: FORD FIESTA



## THE INTERNATIONAL CAR

The growing complexity of European car manufacture is illustrated by the Ford Fiesta. The cars are assembled in three countries — the United Kingdom (denoted by the symbol ●), West Germany (○) and Spain (○) — from parts made either by Ford itself or outside component suppliers. Thus Dagenham-assembled Fiestas get their transmissions from France, clutches from Germany and Spain and two of the three engines used in the range (957 cc and 1100 cc) from Spain. Britain, on the other hand, supplies 1300 cc engines, instrument clusters and spark plugs for Fiestas assembled in Germany and Spain.

source: The Times 16.9.81

Price: £2.00