MG Rover and the need for an international perspective

Part Two

Socialist Equality Party (Britain)
27 April 2005

This is the second part of a three-part statement. The first part *was posted April 26.*

The nationalisation of British Leyland (BL) by the Labour government of Harold Wilson in 1975 was a desperate political measure, aimed at avoiding the massive job losses and the political upheavals that would have followed a private-sector restructuring.

It was the first of several bailouts for "lame ducks" in the beleaguered engineering sector. It was not aimed at benefiting the working class, but at rescuing a moribund sector of the national economy, largely to the benefit of the owners, and to help British capitalism remain internationally competitive. Reflecting this, the government paid shareholders well above the market value of their shares.

Nationalisation also had the political effect of further entrenching the trade union bureaucracy within a corporatist alliance made up of the government (as a direct employer), the management and the unions. It was used by the union leaders to reinforce their claim that there was a common interest in maintaining a national car industry that was owned by the "British people."

Leon Trotsky drew attention to the phenomenon of state nationalisation in capitalist countries, whereby the trade unions were drawn into the management of key industries. Such a policy had nothing to do with workers' control, he insisted, but was aimed at disciplining the working class to accept the demands of capitalist industry through the mechanism of the labour bureaucracy.

He wrote of "the connection of the top trade union leaders with the apparatus of state capitalism, the transformation of mandated representatives of the proletariat into hostages of the bourgeois state." He continued: "But however great this danger may be, it constitutes only a part of a general danger, more exactly, of a general sickness: that is to say, the bourgeois degeneration of the trade union apparatuses in the imperialist epoch not only in the old metropolitan centres, but also in the colonial countries. The trade union leaders are, in an overwhelming majority of cases, political agents of the bourgeoisie and its state. In nationalised industry they can become and already are becoming direct administrative agents" (*Writings of Leon Trotsky, 1938-39*, Pathfinder Press, New York, p. 328).

Under state ownership, over the next eight years BL's management was given the cash to do what British Leyland Motor Company (BLMC) could not: reequip the factories and develop new models. But their target of at least one million cars a year was unrealisable, given the national perspective for the industry's development. Falling volumes meant that BL could not match the state's investment with its own.

The return to power of the Conservative government under Margaret Thatcher in 1979 marked a definitive break by the British bourgeoisie with the post-war policies of national economic regulation, and with it the concept of maintaining national "champions." Thatcher was to implement a strategy based upon her recognition that a fundamental shift in the strategic orientation of capital was necessary.

In an effort to offset the falling rate of profit, production was to be reorganised on a global basis. Inefficient national industries would no longer be propped up. Instead, the "lame ducks" would be sent for slaughter, and everything would be done to facilitate the free movement of capital, enabling investment where production and labour costs were lowest.

British Leyland was to be the first target. Its chairman, Michael Edwardes, first announced a "recovery plan" based on slashing BL's productive capacity in half and "curbing the power" of the trade unions. This was nothing less than a declaration of war on car workers, but once again the trade union leadership could be relied upon to push through a vote in favour of the recovery plan.

Plants were closed and production concentrated at Longbridge and Cowley. Within six months, management unilaterally imposed new work practices. However, while Edwardes had promised a return to profitability in 1982, this never happened. The new models delivered only 500,000 sales, not the desired 750,000. Exports collapsed, in part because Edwardes had failed to develop a European distribution network. Without an export market, BL remained dependent on a home market where it faced increasing competition from imports and foreign transplants.

The changes associated with globalisation had gone much further than the Edwardes plan provided for, leaving BL unable to compete. Increasingly, cars were being assembled from components produced right across the globe. US plants in Britain were sourcing their assembly lines in Europe. All the major producers had developed an international presence in every regional market, either by building their own plants, taking over local firms, establishing joint ventures, or allowing local manufacturers to build under licence. Japan was setting up car plants in Britain as an entry point to the European Community, and sourcing its components in low-wage economies.

BL developed no such strategy. Even the projected 750,000 sales, spread across several models, would never have created a viable company that could cover the costs of retooling for new models. The downsized company was simply too small. As sales continued to slump, more and more workers were laid off.

The demands of capitalist production ended the possibility of even a truncated version of a national champion such as BL, and the Conservative government readily abandoned it.

In 1986, Thatcher tried to sell BL—now rebadged as Rover, the name of its more upmarket product—to Ford, but without success. Finally, in 1988, the government succeeded in selling Rover for a trifling £150 million to the aircraft and engineering conglomerate British Aerospace (BAe), another recently privatised former national champion. As with all its privatisations, the government ensured that the British taxpayer was made to pay massive rewards to Thatcher's friends in the City of London. In the case of BL, the government took on the firm's massive debts, gave BAe a £600 million investment dowry, and transferred a healthy pension fund.

By this time, Rover employed only 78,000 workers, less than half the number employed when it was taken into state ownership in 1975.

Rover's new owners knew that it stood no chance of survival as an independent auto company. BAe sought a tie-up with an international manufacturer, and eventually formed a joint venture with Honda, which was seeking a base from which to export cars to Europe with sufficient UK content to satisfy the tariff rules of the European Community. Under a deal that confirmed Rover's inferior status, it would produce Honda cars under a Rover body at Swindon, and give up the right to compete with Honda wherever it was active, including in the US.

Rover only survived courtesy of the Honda connection and the prestigious Land Rover model. In 1994, BAe, which was on the brink of financial collapse because of problems with its regional jets business, sold Rover for £800 million to the German auto producer BMW. Like other small-volume European car producers at the time, such as Volvo and Saab, BMW was seeking international partners and mergers in order to remain viable. Its larger German competitor, Daimler Benz, which had a wider product range, had established plants in North America and was later to merge with Chrysler. Without the funds to establish its own transplants, BMW wanted Land Rover as a platform from which to develop a four-wheel-drive vehicle. BAe refused to sell Land Rover separately without the Rover cars division.

Problems immediately surfaced. Honda pulled out, leaving Rover completely dependent upon BMW for funding a new model. But BMW had no experience or capacity to build efficient, small front-wheel-drive vehicles. Its own vehicles were rear-wheel-drive, and it could never achieve the necessary economies of scale for building a wide range of models with a common platform.

BMW invested heavily in Land Rover and the development of the Rover 75 model at the Cowley plant near Oxford in 1998, but Longbridge was always vulnerable. BMW threatened to move production of the Mini or even close the Longbridge plant entirely, unless workers accepted a productivity deal.

In November 1998, the unions agreed, and 2,500 jobs went. In March 1999, when BMW threatened to move production to Hungary, where wages were lower, the Labour government stepped in and offered a £152 million aid package in return for a £1.7 billion investment by the company to modernise Longbridge.

Even this was not enough. In March 2000, with losses mounting to £780 million, BMW announced that, after pouring £3.4 billion into Rover since buying it in 1994, it was pulling out.

This caught the Labour government on the hop. A deal to sell Rover to venture capital group Alchemy fell through. Alchemy had said it would rebrand the Rover cars as MG (the 1960s sports badge), downsize production, and focus on sports cars—with a loss of 5,000 jobs at Longbridge. BMW sold Land Rover and Rover's design facilities at Gaydon to Ford for £1.8 billion and kept the Mini production plant at Cowley.

After a huge campaign by the trade unions, and with the backing of the Labour government, BMW agreed to sell Longbridge—after transferring production of the Rover 75 to the Longbridge plant—for a token £10 to Phoenix Venture Holdings, a group of former Rover managers, who insisted that Rover could be saved as a volume car producer. BMW gave Phoenix a £500 million cash injection, paid off £500 million of Rover's debts, and bequeathed them a stockpile of 65,000 finished cars, worth £533 million if they could be sold.

This bargain basement sale did not mean that MG Rover was a going concern. While the unions claimed Longbridge had been "saved," MG Rover under Phoenix was never viable. None of the essential problems had been resolved.

Fundamentally, Rover still needed to become part of a larger international concern. Peter Cooke, motor industry professor at Nottingham Business School, said of the Phoenix management, "From the first, they went out and trampled the world talking to everyone, looking for a partner. With a three- or four-product line-up, you need to amortise development costs over a million units. Phoenix, in contrast, was talking some 250,000 sales a year."

Rover needed a minimum sale of 180,000 cars a year just to break even. Instead, sales slumped to 145,000 in 2002, 116,000 in 2003 and 110,000 in 2004, by which time its share of the car market had fallen to less than four percent, down from 13.4 percent in 1990.

Even worse, Rover was simply reproducing old models under a new body shell. New models are enormously expensive to produce—costing around $2 billion.

Phoenix's search for international investment partners proved largely unsuccessful. John Towers, Phoenix chief executive, tried to tie up joint ventures overseas, firstly with Tata in India and then with Brilliance in China. Neither took off.

In 2004, Towers tried to form a "strategic alliance" with Shanghai Automotive Industry Corporation (SAIC) to develop and build a new set of models. SAIC is China's largest car manufacturer, making cars under licence in joint ventures with GM and Volkswagen. It was the failure of this last-ditch attempt that immediately precipitated MG Rover's collapse.

Nevertheless, as far as the four directors of Phoenix group were personally concerned, their investment in MG Rover was lucrative. As the Financial Times noted, on the very day administrators were sent to Longbridge, the Phoenix directors did "what any ruthless entrepreneur would have done in their situation: incentivise, strip assets, take cash out early." The Financial Times described this as "burning through someone else's money."

From an initial sum of £60,000 to form Phoenix, the four owners of the group, Towers, Peter Beale, Nick Stephenson and John Edwards, soon became millionaires. They lost no opportunity to feather their own nests, paying themselves generous salaries and establishing their own £13.5 million pension fund that together has made them £40 million richer.

The directors split MG Rover into 28 different companies, hiving off Rover's profitable property portfolio, engine and car leasing businesses into Techtronic, one of the companies under their direct control, and selling them on at a profit. They left MG Rover an empty shell, owning nothing but debts, with some of these owed to their other companies, making them Rover's main, and in some cases sole, creditor.

BMW had sold Rover's car finance firm, MGR Capital, directly to the directors, who set up a joint venture with the HBOS bank to buy a £313 million stock of car loans and leases in 2001 from BMW. According to the Financial Times, the directors are to share in a windfall profit of £6.1 million from MGR Capital when the last monthly payments are made on the loans this year or early next.

The directors transferred Studley Castle, a 28-bedroom mansion set in 30 acres of Warwickshire countryside, to a Phoenix company, and let it out as a conference centre. That, and the sale of most of the Longbridge property between 2002 and 2004, netted them £75 million. The 403-acre site of the Longbridge plant was sold for a bargain £57 million. The car parts business was sold to Caterpillar Logistics (UK) for £100 million. Their actions even prompted BMW to call the Phoenix four "the unacceptable face of capitalism."

To be continued

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