# The closure of MG Rover and the need for an international perspective

## Part Three

**By Socialist Equality Party (Britain)**
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*This is the conclusion of a three-part series.* Part One *and* Part Two *were posted on April 26 and 27 respectively.*

The events leading up to the Shanghai Automotive Industry Corporation (SAIC) pulling out of the deal to buy MG Rover have demonstrated the full extent to which the British company was unviable and had been gutted by its directors.

SAIC was keen to acquire Rover technology to enable it to produce cars in its own right. To this end, it paid £67 million to MG Rover in October 2004. According to the *Economist*, this gave SAIC the intellectual property rights in the Rover 25, the Rover 75 and the Rover 45 models, including the design details of a new model under development, and the right to use the Rover brand in China. SAIC also obtained the production equipment for making the K-series engines.

But SAIC pulled out when it realised that Rover was in deep financial trouble, despite pressure from Chancellor of the Exchequer, Gordon Brown, when he was in China last February, and Prime Minister Tony Blair, and offers of small-scale aid and sweeteners from the British government.

By last year, Rover's losses had reached £250 million. Administrators PriceWaterhouse Coopers (PWC) have made clear that it now has barely any assets left. John Moulton, managing partner of Alchemy, said of the documents circulated by PWC, "It took me two minutes to read it. The prospectus says they can deliver the MG brand, but makes no reference to the Rover name at all. I have never seen anything like this in a company of this size. There just is hardly anything there."

There have been allegations that some £500 million of cash and assets are unaccounted for. Questions have also been asked about the pension fund investment strategy, which led to the fund—in surplus when BMW transferred it to Phoenix in 2001—having a £67 million deficit in 2003.

When it became clear that Rover would collapse in the run-up to the general election on May 5, the Labour government first responded by seeking to conceal this from the electorate. When this fiction proved impossible to maintain, it sought to minimise the political fallout.

The documentary record and statements by sources close to SAIC make clear that the government knew for months that there was no possibility of a deal being struck with the Chinese company and had pretended otherwise purely for public consumption.

In a March 29 letter to the Department of Trade and Industry (DTI), SAIC made clear that it would not take on any financial risk. This effectively meant that it would not buy Rover unless the company had no pension fund deficit and was guaranteed bank finance and unless the government agreed to underwrite its solvency for a number of years.

A similar message was repeated in letters on April 4 and April 5. A source close to the proceedings was quoted as saying, "It became a case of which part of the word 'no' don't you understand."

SAIC would not buy the company because it knew that it was either on the brink of insolvency or was already insolvent. A SAIC company source told Scotland on Sunday that company officials had informed Trade Secretary Patricia Hewitt that they were not interested in a joint venture three months ago: "No company in the world would go into a joint venture with a partner who could be insolvent within weeks."

On April 17, the *Observer* cited another source close to SAIC stating that the company had received a report from accountants Ernst & Young in March concluding that MG Rover was effectively insolvent. "The fact that there was no bank debt connected to the group was 'sinister,' said the source."

This raises two questions: Firstly, if the Rover directors knew that the sale of assets and the scale of company debts meant that MG Rover was insolvent, they would be guilty of trading illegally.

Secondly, if that is the case—and SAIC strongly suspected as much when it looked at the books—then the government either must or should have known the same thing.

But right up to the company's final hours, the government continued to claim that negotiations with SAIC were ongoing. Ministers were despatched to China, and the DTI even offered £6.5 million to pay Rover's wages for one week, intimating that more might be forthcoming. Blair himself insisted that a £100 million rescue package be put together in a last-ditch attempt to secure a deal with SAIC, against the advice of civil servants and ministers that this was a wrong strategy and possibly constituted the illegal use of taxpayers' money.

Labour's posturing was echoed by the Transport and General Workers Union (TGWU), which appeared together with the government on platforms insisting that the only hope for MG Rover was to secure the Chinese deal.

The TGWU was well aware of what had been going on at Rover. As early as November 2003, it had held meetings with management to raise concerns over excessive executive pay, a reported pension's deficit of £73 million, and reports that a £13 million trust fund had been set up for directors.

In March 2004, it had called for two independent directors to be appointed to the board, because the group's directors had shown "morally unacceptable behaviour" in setting aside millions for their pension funds. Amidst allegations of asset stripping, TGWU General Secretary Tony Woodley nevertheless told the BBC that he thought the directors had done "an extremely good job in difficult circumstances" since they took over, despite their recent "bad behaviour."

On the ground, the bureaucracy continued to do everything it could to ensure the company closed without any serious protest or opposition that would politically embarrass the government. This was a major concern for the bureaucracy in the run-up to the general election and indeed, for the bourgeoisie itself. A report in the *Independent* newspaper noted that riot police had been held in reserve, should trouble erupt following the plant's closure.

It was only when SAIC publicly and bluntly stated that it was not interested in Rover as a going concern that the government was forced to end its cynical charade.

The government, continuing to feign indignation and surprise, has sought to deflect criticism from itself onto the Phoenix directors. It has announced an inquiry by the Financial Reporting Review Panel into whether the accounts were prepared properly. Even this limited investigation, which was not set up to deal with allegations of financial irregularities, will not be completed until after the election.

The death of Rover cannot be attributed merely to bad management or asset stripping. Within a fiercely competitive global marketplace, the company was unviable. The Phoenix directors merely delivered the coup de grace to the company, while the Blair government turned a blind eye.

While there is as yet nothing to indicate that any of the actions take by Towers and his fellow directors are impermissible under company law, a number of points should be made.

From the standpoint of capital, the main issue is whether or not what Phoenix did was legal. However, for the working class, this is a secondary, although not insignificant, question. Legal or not, what has taken place at MG Rover is nothing short of the looting by a self-interested bourgeois clique of social assets built up by generations of tax payers and workers. And far from being the "unacceptable face of capitalism," this is increasingly the real face of capitalism. Such actions go on all the time, in companies far larger than MG Rover, and aided and abetted by legions of well-paid financial and legal advisors. When the chairman of the House of Commons Trade and Industry Select Committee, Peter Beale, accused the Phoenix directors of performing a "financial sleight of hand," one of the four defended their conduct, saying that it was "a perfectly normal, almost textbook way of running companies."

That such behaviour is so widespread is an expression of the degree to which today's corporate bosses are not only incapable of developing the productive forces, but are not even committed to doing so. The central aim of the bourgeoisie all over the world is their immediate self-enrichment in the form of massive pay packets, share portfolios, pension packages and other remuneration, legal and illegal, even when this is at the expense not only of their own companies, but of the long-term interests of the profit system itself.

It illustrates graphically that the interests of workers and their employers are diametrically opposed. The role of the trade unions and Labour government has been to conceal this most fundamental issue, and it has been the working class that has paid the price.

The collapse of MG Rover demonstrates the complete dead end of the labour bureaucracy's failed nationalist perspective. For decades, the trade unions called on the government to help save the "last British-owned" mass-volume car producer. They put their faith in the ability and willingness of the British corporate bosses, backed up by government and bankers, to run the company in a way that would secure the future of the work force. This has been exposed as a dangerous chimera.

Yet even now, there is a chorus from various left groups in Britain, who have responded to MG Rover's closure with demands that it be re-nationalised.

The Socialist Workers Party (SWP), which heads the Respect-Unity Coalition that is standing candidates in the May 5 general election, said, "The solution to the crisis is simple—Re-nationalise Rover now." Salma Yaqoob, Respect's candidate in Birmingham Sparkbrook and Small Heath, said, "Rover only needs to sell 180,000 cars a year to survive and at the moment in sells 110,000. If New Labour had taken control of Rover and made some investment instead of handing it over to the millionaires of the Phoenix Four, these people could still be making cars."

The SWP's "simple" solution is a ridiculous perspective even on its face. After what has taken place in the past five years, there is hardly anything left to nationalise. Moreover, the idea that Blair would re-nationalise anything only spreads illusions in the possibility that the bureaucracy can be forced to the left. But even if it were possible to pressurise Labour to carry out such a measure, this would only leave a tiny company that was unviable on the world market, and which could only be kept going through pumping in millions in taxpayers' money.

On the most immediate level, the correct demands to be raised in order to protect MG Rover workers is for full retraining with the provision of guaranteed jobs in related industries on equivalent wages for those who wish to take them, and decent redundancy payments and guaranteed pensions for all others, to be paid for by increasing taxes on the major corporations. The books of MG Rover should be opened to a team of representatives and accountants chosen and trusted by the workforce.

More importantly, the demand for re-nationalisation is a substitute for a political rebellion against the Labour and trade union bureaucracy and the fight to reorient the workers' movement so that it can wage an effective struggle against job losses that are on the agenda throughout the auto industry.

This is made patently clear by the Socialist Party, which is standing a candidate in the Birmingham Northfield constituency and which explicitly ties its demand for nationalisation to efforts to subordinate the working class to the trade unions. It states, "A vote for a Socialist Alternative candidate calling for nationalisation of the site and assets is one way to put pressure on Blair but the trade unions must also act now." The accounts of Pheonix are also to be opened to "scrutiny by the trade unions"—as if the TGWU and Amicus will defend the interests of the workers.

The parochialism encouraged by the labour bureaucracy and its apologists conceals the real situation confronting car workers in Britain, whose fate is inextricably bound up with that of their fellow workers overseas.

Despite the claim that MG Rover's collapse represents the death of the British car industry, the UK remains one of the major car producers in Europe, with nearly every major car manufacturer having a presence in the country. According to Labour Market Trends, in 2002 more than 210,000 workers were employed in motor manufacturing, producing more than 1.6 million cars and 1.8 million commercial vehicles primarily for globally operating corporations with manufacturing platforms in Britain. On top of this, a further 1.2 million people were employed in the wholesale, retail, sale and repair of motor vehicles.

The re-nationalisation of MG Rover would do nothing to protect the hundreds of thousands of jobs that are also under threat throughout Britain, let alone those of millions of workers all over the world.

The situation is grave. Within Britain, the French-owned Peugeot plant at Ryton near Coventry—employing 5,000 workers—has cut back production of its one remaining and ageing model. The world's car industry has the capacity to build 80 million cars and other light vehicles a year, but is currently producing about 60 million, with most of the spare capacity in North America and Europe. This necessitates cuts and closures on a massive scale.

In the US, the world's premier car producer, General Motors, has just announced a record $1 billion loss for the first quarter of the year. While its European division has long been a problem, it blamed poor sales in its North American market, which accounts for 60 percent of its revenues, for going into the red. Credit ratings agencies are on the verge of cutting its credit to junk bond status, which would increase GM's borrowing costs and possibly even push it over the edge.

Ford, the US number-two car producer, has been hit by falling demand for its SUVs, its most profitable models. This is already having a knock-on effect, as several of its suppliers have applied for bankruptcy protection.

The same situation is repeated in country after country, and the working class will not be able to defend itself as long as the trade union bureaucracy ensures that only the corporations have the ability to operate on a global scale. Workers must break from the straitjacket of the old nationally based trade union forms of struggle and begin to organise itself as an international class. The essential prerequisite for this is the construction of a socialist and internationalist party—represented in Britain by the Socialist Equality Party.

*Concluded.*