Britain: Asset stripping followed government bailout of MG Rover

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The government report on MG Rover, which collapsed in April 2005, criticised the asset stripping and self-enrichment of the clique of directors who ran the company.

But while Labour attempts to portray events at Rover as a one-off incident, involving just a handful of corrupt individuals, its report inadvertently exposes the politically sanctioned looting of social assets that has taken place over the last decades in Britain by a parasitic elite.

MG Rover was the last British-owned volume car manufacturer. Its end resulted in the loss of 6,500 jobs in its own plants and a further 15,000 jobs among suppliers and distributors, and left debts of £1.3 billion. The government commissioned the report in order to deflect criticism from itself onto the directors of the Phoenix Consortium, who in 2000 bought the loss making MG Rover from BMW promising to restore the company's position in the marketplace.

In the late 1960s, after mergers brokered by the Wilson Labour government to create a "national champion," Rover's forerunner—British Leyland—became the fourth largest car manufacturer in the world, producing more than 1 million cars a year.

Its failure to rationalise its numerous models, invest sufficiently in new equipment and develop an international strategy left it unable to compete with its European, American and Japanese rivals. Within six years, another Labour government had to nationalise it to prevent the mass sackings that would have followed the company's collapse.

Neither public ownership, which reduced MG Rover to less than half its former size, nor privatisation with its sale to British Aerospace in 1988 and then to BMW in 1994 were able to reverse the decline. Despite investing £3.4 billion and receiving £150 million in subsidies from the Labour government in 1999 to keep production in Britain, as well as trade union agreement to job cuts and productivity increases, BMW announced £780 million in losses and that it was pulling out.

A deal to sell Rover to Alchemy, a venture capital group, that would downsize production with a loss of 5,000 jobs at Longbridge, fell through. BMW sold Land Rover, its profitable jeep and four-wheel drive division, to Ford.

The government then invited a group of former Rover managers, the Phoenix Consortium, to bid for Rover. After a huge campaign by the trade unions, and with the backing of the Labour government, BMW agreed to sell Longbridge for a token £10 to Phoenix. BMW gave the Phoenix group a £500 million cash injection, paid off £500 million of Rover's debts, and bequeathed them a stockpile of 65,000 finished cars, with a book value of £533 million.

The trade unions claimed that Longbridge had been "saved" and the "Phoenix Four," as its directors were known, were treated as cavalry coming to rescue the workforce. But MG Rover under Phoenix was no more viable that it had been under BMW, and losses and jobs cuts continued, with trade union support.

Rover's survival depended on finding an international investment partner, but no partner could be found. A last ditch attempt to form a "strategic alliance" in late 2004 and early 2005 with Shanghai Automotive Industry Corporation (SAIC), China's largest car manufacturer, fell through because the company was not viable without the government underwriting its debts. This precipitated MG Rover's collapse.

Desperate to avoid a political storm that would follow the announcement of job losses at Rover in the run-up to the election on May 5, 2005, the government sought to conceal the situation from the electorate. It claimed right up to the company's final hours that negotiations with SAIC were ongoing. Ministers were dispatched to China and the Department for Trade and Industry provided £6.5 million to pay Rover's wages for one week, intimating that more might be forthcoming. Then Prime Minister Tony Blair 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 possibly an illegal use of tax revenues.

Rather than mount a campaign among car workers for the defence of jobs, the Transport and General Workers Union backed management and appeared with the government on platforms insisting that salvation lay in a Chinese deal.

When it became clear that Rover would collapse in the weeks prior to the election and that the fiction over an SAIC rescue was about to be revealed for what it was, Labour set up an enquiry into the company's failure. The trade union leaders continued to do everything they could to ensure the company closed without serious protest or opposition that would politically embarrass the government.

While MG Rover was a disaster as a commercial venture, for the four directors of Phoenix group their investment in MG Rover was very lucrative. The government's report confirmed that from an initial sum of £60,000 to form Phoenix, each of the four owners of the group, John Towers, Peter Beale, Nick Stephenson and John Edwards, soon became millionaires.

Five of the executives who ran MGRG were criticised for giving themselves "unreasonably large" payouts worth £42 million in pay and pensions, which were "out of all proportion to the incomes they had previously commanded" and "were also large when compared with remuneration paid in other companies."

The directors split MG Rover into 28 different companies, mostly under their own direct control and sold them on at a profit, leaving MG Rover an empty shell owning nothing but debts. These companies also became Rover's chief creditors. Their actions prompted BMW to call the Phoenix four "the unacceptable face of capitalism."

The report criticised the four directors for giving "inaccurate and misleading" reports to MPs by exaggerating the scale of the personal financial risks they had taken as individuals. "In reality...the members of the Phoenix Consortium [the parent company of the MG Rover Group] had invested relatively little in the group and undertaken only limited risks," the report said.

One of the directors, Nick Stephenson, paid almost £1.7 million to a consultant with whom he had a "personal relationship." The report noted that the four directors of the Phoenix Four often held board meetings to which other directors were not invited.

The report criticised Peter Beale, the finance director, for buying and installing computer software to deep clean his computer's hard disk of any "sensitive material" that normal efforts to delete would not remove the day after the government announced the investigation.

The Serious Fraud Office said that none of this provided grounds for prosecuting the directors. In other words, this self-enrichment by the directors was entirely legal. The government has admitted as much by calling for the directors to bar themselves voluntarily from holding directorships again. It has announced that it will institute civil proceedings against them, but this will take years and is unlikely to be successful.

Far from being an isolated phenomenon, it has become the norm for corporations to hire legions of well-paid financial and legal advisors to help them do this. When Beale was accused by the chairman of the House of Commons Trade and Industry Select Committee, shortly after the company's collapse, of performing a "financial sleight of hand," he defended the directors' conduct by saying that it was "a perfectly normal, almost textbook way of running companies."

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 the profit system but even of their own companies. 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 850-page report took more than four years to produce and cost more than £16 million. It drew no conclusions and made no recommendations and did not even contain an executive summary.