

SECRET

17

5 February 1986

PRIME MINISTER

E(A) - BL

This DTI paper takes us back to where we were a year ago.

The structure is:

1. Don't take a decision on full negotiations with Ford until end February. This kills the Unipart sale, but without creating any commitment to seriously pursue the ARG sale. It is right not to make a final decision until full information is available, but is quite wrong to funk the initial political decision.
2. Start negotiations with Honda. This should ensure that the Ford interest withers away but without securing a better alternative. If Honda want to use Austin Rover as an integrated element of their European strategy, then they will require full control. This has the same disadvantages as the Ford deal, but many times bigger - not least that it is far less likely to happen, and would only happen much later. The convertible loan stock achieves nothing: if the Government doesn't give a guarantee, then no-one will invest; and if it does, then the Government remains on the BL hook whilst the investors take a risk-free ride.



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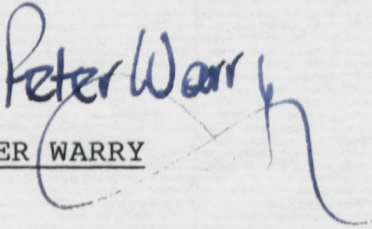
Whichever way the decision goes - and we believe the industrial/employment case for Ford is overwhelming - it is essential that the decisions are taken tomorrow.

If a deal with Ford (on appropriate terms) is politically sustainable, then:

- a. There should be no further talks with Honda. They are only likely to jeopardise the Ford deal.
- b. Graham Day should be appointed immediately (albeit initially as Bide's deputy). BL deliberately leaked the negotiations, and will continue to sabotage the talks unless discipline is restored.
- c. The Charterhouse bid for Unipart should reluctantly be allowed to lapse.

If a deal with Ford is not possible, then:

- a. The Unipart bid should be unblocked. We have promised an answer by 9 February.
- b. Graham Day should still be appointed immediately: we will need him even more desperately.
- c. The £680m borrowings cap which BL agreed last year must be enforced.

  
PETER WARRY