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FOLLOWING FOR PAUL GRAY, NO. 10 DOWNING STREET FROM CHARLES POWELL IN TORONTO.

ROVER GROUP

FOLLOWING IS TEXT OF MY NOTE RECORDING THE PRIME MINISTER'S DISCUSSION WITH M. DELORS OF THE PROPOSED SALE OF ROVER GROUP TO BRITISH AEROSPACE. I SHOULD BE GRATEFUL IF YOU COULD PASS IT TO THE DEPARTMENT OF TRADE AND INDUSTRY.

BEGINS

ROVER GROUP

THE PRIME MINISTER HAD A MEETING IN TORONTO THIS AFTERNOON WITH M. DELORS, PRESIDENT OF THE EC COMMISSION, TO DISCUSS THE PROPOSED SALE OF ROVER GROUP TO BRITISH AEROSPACE. M. LAMY WAS ALSO PRESENT.

I SHOULD BE GRATEFUL IF YOU AND COPY RECIPIENTS WOULD ENSURE THAT THIS LETTER IS SEEN ONLY BY NAMED RECIPIENTS ON A STRICT NEED TO KNOW BASIS.

THE PRIME MINISTER SPOKE ALONG THE LINES OF THE BRIEF ENCLOSED WITH YOUR LETTER OF 17 JUNE TO PAUL GRAY. SHE EMPHASISED THE VERY GREAT POLITICAL SENSITIVITY OF THE MATTER AS WELL AS THE URGENCY. THE BAE OFFER EXPIRED ON 31 JULY AND WE NEEDED A DEFINITIVE RESPONSE FROM M. DELORS BY MID-JULY AT THE LATEST IN ORDER TO ALLOW TIME FOR THE PARLIAMENTARY PROCEDURES TO BE COMPLETED. THE DELAY WHICH HAD ALREADY OCCURRED TOGETHER WITH THE UNFORTUNATE LEAK IN BRUSSELS WAS CAUSING SERIOUS PROBLEMS BOTH FOR BAE AND FOR ROVER GROUP AND THEIR DEALERS. THE PRIME MINISTER CONTINUED THAT WE HAD BEEN SERIOUSLY DISAPPOINTED WITH THE OUTCOME OF LORD YOUNG'S FIVE MEETINGS WITH COMMISSIONER SUTHERLAND. IF THIS OPPORTUNITY TO PRIVATISE THE ROVER GROUP WERE MISSED, IT WAS VERY HARD TO SEE ANOTHER ONE MATERIALISING. THE FIGURES HAD BEEN WORKED OVER CAREFULLY. SHE WAS AWARE THAT THERE WERE SOME DIFFERENCES BETWEEN THE UNITED KINGDOM AND THE COMMISSION OVER THE DEFINITION OF DEBT: BUT VIRTUALLY ALL OF IT WAS EITHER AUDITED DEBT OR SUMS WHICH THE AUDITORS CONFIRMED WERE APPROPRIATE. THERE MIGHT BE SOME LATITUDE IN THE OVERALL FIGURE FOR THE NET TERMS NEGOTIATED WITH BAE, BUT NOT MORE THAN FIFTY MILLION POUNDS. TO SUM UP: THE COMMISSION'S DECISION HAD MAJOR POLITICAL AND COMMERCIAL IMPLICATIONS AND WE WERE UP AGAINST A DEADLINE. IT WAS ESSENTIAL THAT A SATISFACTORY SOLUTION SHOULD BE REACHED RAPIDLY.

M. DELORS SAID THAT HE HAD DISCUSSED THE PROBLEM WITH LORD YOUNG AND ALSO WITH COMMISSIONER SUTHERLAND. HE COULD ASSURE THE PRIME MINISTER THAT IT WOULD BE DEALT WITH EQUITABLY. HE UNDERSTOOD THE NEED FOR A QUICK DECISION. COMMISSIONER SUTHERLAND HAD TWO OBJECTIONS. ONE WAS THE PRICE, THE OTHER WAS COMPOSITION OF THE DEBT. THE PRIME MINISTER INTERJECTED THAT THE PRICE REFLECT ROVER GROUP'S VERY POOR PAST PERFORMANCE. BAE WOULD HAVE TO FINANCE INVESTMENT IN NEW MODELS FROM THEIR OWN RESOURCES, WHICH WOULD BE A HEAVY BURDEN. THEY WOULD ONLY BUY ROVER GROUP IF IT WAS DEBT-FREE. THE DEBT HAD ALL BEEN PROPERLY AUDITED. M. DELORS SAID THAT IT WOULD BE HELPFUL IF HE COULD SEE THE AUDIT RESULTS. HE BELIEVED THAT A COMPROMISE COULD BE FOUND BY ALTERING THE MIX BETWEEN DEBT WRITE-OFF AND CARRY-OVER OF TAX LOSSES. THE LATTER WAS OF NO CONCERN TO THE COMMISSION. THE PRIME MINISTER POINTED OUT THAT IT ALSO HAD LITTLE ADVANTAGE FOR BAE SINCE IT WOULD BE RING-FENCED WITHIN ROVER GROUP. M. DELORS CONTINUED THAT HE FULLY APPRECIATED THE PRIME MINISTER'S POLITICAL CONCERNS. HE WOULD PROPOSE A SOLUTION TO HIS COLLEAGUES, IN THE COMMISSION. HE WOULD ALSO REMAIN IN CLOSE TOUCH WITH LORD YOUNG.

I AM COPYING THIS LETTER TO TONY GALSWORTHY (FOREIGN AND COMMONWEALTH OFFICE) AND TO ALEX ALLAN (HM TREASURY).

HOWE

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SUBJECT & MASTER

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This was telegraphed to DTI today.
Circulated in Toronto to copy recipients.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 June 1988

Dee Joseph.

ROVER GROUP

The Prime Minister had a meeting in Toronto this afternoon with M. Delors, President of the EC Commission, to discuss the proposed sale of Rover Group to British Aerospace. M. Lamy was also present.

I should be grateful if you and copy recipients would ensure that this letter is seen only by named recipients on a strict need to know basis.

The Prime Minister spoke along the lines of the brief enclosed with your letter of 17 June to Paul Gray. She emphasised the very great political sensitivity of the matter as well as the urgency. The BAe offer expired on 31 July and we needed a definitive response from M. Delors by mid-July at the latest in order to allow time for the parliamentary procedures to be completed. The delay which had already occurred together with the unfortunate leak in Brussels was causing serious problems both for BAe and for Rover Group and their dealers. The Prime Minister continued that we had been seriously disappointed with the outcome of Lord Young's five meetings with Commissioner Sutherland. If this opportunity to privatise the Rover Group were missed, it was very hard to see another one materialising. The figures had been worked over carefully. She was aware that there were some differences between the United Kingdom and the Commission over the definition of debt: but virtually all of it was either audited debt or sums which the auditors confirmed were appropriate. There might be some latitude in the overall figure for the net terms negotiated with BAe, but not more than fifty million pounds. To sum up: the Commission's decision had major political and commercial implications and we were up against a deadline. It was essential that a satisfactory solution should be reached rapidly.

M. Delors said that he had discussed the problem with Lord Young and also with Commissioner Sutherland. He could assure the Prime Minister that it would be dealt with equitably. He understood the need for a quick decision. Commissioner Sutherland had two objections. One was the price, the other was composition of the debt. The Prime Minister interjected that the price reflect Rover Group's very poor past performance. BAe would have to finance investment in new models from their own resources,

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which would be a heavy burden. They would only buy Rover Group if it was debt-free. The debt had all been properly audited. M. Delors said that it would be helpful if he could see the audit results. He believed that a compromise could be found by altering the mix between debt write-off and carry-over of tax losses. The latter was of no concern to the Commission. The Prime Minister pointed out that it also had little advantage for BAe since it would be ring-fenced within Rover Group. M. Delors continued that he fully appreciated the Prime Minister's political concerns. He would propose a solution to his colleagues in the Commission. He would also remain in close touch with Lord Young.

I am copying this letter to Tony Galsworthy (Foreign and Commonwealth Office) and to Alex Allan (HM Treasury).

your search.
C. D. Powell

C. D. POWELL

Stephen Ratcliffe, Esq.,
Department of Trade and Industry.