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ROVER GROUP

Note by the Secretary of State for Trade and Industry

Since the sale of the commercial vehicle subsidiaries to DAF last year, Rover Group (RG) Chairman, Mr Graham Day, has been reviewing options for the return of the remaining RG businesses, principally Austin Rover and Land Rover, to the private sector. Recent studies have concentrated on the possibility of placement/flotation, though it appears that the prospects of achieving this within an acceptable time-frame seem remote.

2. However, an unexpected opportunity to dispose of these businesses has now arisen. I have recently received an unsolicited approach from British Aerospace Plc who have declared a serious interest in acquiring the whole of the issued share capital of RG. Subject to certain conditions they would like to open negotiations for the purchase of the Government's shareholding.

3. My subsequent discussions with BAe have focused on reaching a broad understanding with them on key issues to establish whether we could have sufficient confidence in a successful outcome to any negotiations to justify a public announcement. The main points at issue have been:-

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(a) Exclusivity of negotiation

BAe were insistent that they would not be prepared to enter into a competitive bidding situation and would be ready to enter into formal negotiation only if granted exclusivity. In view of the past history I have agreed with BAe that we shall be prepared to deal with them on an exclusive basis but only for a limited period (until 1 May) after which we would be free to examine alternative options. This would, of course, leave us free to consider any other unsolicited bids received from other parties.

(b) Government financial injection

BAe were looking for a Government cash injection sufficient both to write off all debt and related liabilities of RG and to make a worthwhile contribution to the working capital needs of the acquired businesses. In discussion, I have stressed the need for Government to emerge with a deal which was publicly defensible and which the EC Commission would approve under state aid rules. BAe have made a helpful response and I am satisfied that in negotiation we shall be able to arrive at a mutually acceptable figure.

(c) Restrictions on resale of the businesses

BAe were anxious to retain complete freedom to manage the acquired businesses according to commercial need. My concern was the possibility that, having acquired the businesses on arguably favourable terms, BAe would be free to on-sell to trade buyers at a potentially handsome profit.

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I have made clear to BAe that we will need to devise a mechanism to ensure that they would not dispose of either of the businesses for a period of at least five years from completion of any purchase.

(d) Honda

BAe recognise the importance of the Honda collaboration to ARG and would wish this to continue. Graham Day has advised that, in his judgement, Honda can be expected to co-operate with BAe post-acquisition but I have undertaken personally to impress upon Honda that we would also welcome this.

4. INDUSTRIAL LOGIC

Linkages between the aerospace and motor industries are not uncommon. General Motors, Fiat and SAAB are among those companies who, as well as being major vehicle producers, have important aerospace operations. And Daimler Benz have been talking to MBB. For their part, BAe also anticipate R&D, engineering, manufacturing technology and overseas marketing synergies which would make acquisition of RG a sensible means of developing a larger and more broadly based business.

5. CONCLUSIONS

On the basis of the understandings reached with BAe, I believe that the prospects of a successful negotiation are good. A deal would also, I believe, be welcomed by RG's management, workforce,

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distributors, dealers and suppliers. As a British solution it would avoid the controversy involved in a foreign take-over and would have strong backing amongst our own supporters.

6. Subject to the agreement of colleagues, I would therefore propose to make an announcement to Parliament this afternoon in ... the terms of the attached statement.

D Y

Department of Trade and Industry

1 March 1988