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10 DOWNING STREET

From the Private Secretary

17 July 1986

THE ROVER GROUP

The Prime Minister this morning held a meeting to discuss the Rover Group on the basis of your Secretary of State's minute of 15 July. Present were the Lord President of the Council, the Chancellor of the Exchequer, the Secretary of State for the Environment, the Secretary of State for Trade and Industry, the Chancellor of the Duchy of Lancaster, the Chief Whip and the Minister of State for Industry (Mr. Morrison).

UNIPART

It was agreed that the offer for Unipart from Charterhouse Japhet should be acceptable. Some details remained to be sorted out.

LEYLAND BUS

There was general agreement that the management buy-out would involve transfer of the company from the taxpayer to the ratepayer and was unattractive for that reason. To sell in effect to a local authority would set a bad precedent and there were doubts about whether the PTE would be acting within its vires. However a proposal for a management buy-out would be popular. Mr. Ridley undertook to investigate further the position of the PTE subsidiary through which the investment in Leyland Bus would be made. The DTI and the Policy Unit should therefore provide to him as quickly as possible all the information at their disposal.

It was noted that the Aveling Barford bid was nearly as good financially as the MBO bid, though payments would be deferred. The Aveling Barford management had proved successful in turning that company round (though they had no experience of the bus business), and they intended to keep the Lowestoft plant open. Redundancies would initially at least be smaller than under the bid from Laird. A sale to Aveling Barford would however mean transferring Leyland Bus into foreign ownership. The Laird bid itself would involve the largest scale of redundancies and would be widely opposed. The Aveling Barford bid accordingly seemed the

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best of the three and it would be helpful if the Rover Group Board were to decide that the Aveling Barford and management buy-out bids were evenly matched. One factor they should take into account would be the prospects for the workforce under those two bids.

LEYLAND TRUCKS

It was agreed that the approaches from DAF and Paccar (which should in future be referred to as the Foden bid) were worth pursuing. There was some awkwardness in the fact that the Dutch government had a large minority holding in DAF, particularly if a willingness to sell Leyland Trucks to DAF were to be compared with the Government's reluctance to allow the Manchester PTE to take a stake in Leyland Bus. However, the Dutch government was intending to sell its minority stake in DAF.

As regards the future of Bedford, it would be preferable if possible for a privatised Leyland Trucks to take over contracts and business from Bedford as Bedford was run down. The Bedford contract to supply trucks to the British army would be particularly sensitive. DTI should liaise closely with MOD about this contract and should establish its size and duration.

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It was agreed that the exploratory talks with Honda should continue.

BF | It was agreed that a meeting of MISC 126 should be held on Wednesday 23 July. Mr. Channon should circulate a paper for this on Tuesday 22 July which should discuss the proposals on Leyland Bus and Unipart.

I am copying this letter to Tony Kuczys (HM Treasury).

(DAVID NORRGROVE)

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Department of Trade and Industry