

SUBJECT CCMASTER

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10 DOWNING STREET

From the Private Secretary

29 July 1986

ROVER GROUP

The Prime Minister yesterday held a meeting with Mr. Graham Day, your Secretary of State and Mr. Peter Morrison to discuss the future of the Rover Group on the basis of Mr. Day's note to the Prime Minister dated 28 July. Mr. Peter Warry was also present.

Mr. Day described the position in the main areas of the Group, speaking very much along the lines of his note. There was a pressing need to stem losses and cash outflows. This would require firm action, including reductions in capital spending, rationalisation of plants and cutting out unnecessary activities. Redundancies would be needed. There would be a considerable one-off cost.

Mr. Day said that Leyland Trucks was reasonably well managed but its markets had collapsed. Discussions with Foden and DAF were continuing and he hoped for a solution by the end of the year. Bedford was likely to close and Mr. Day said he was in discussion with them about the possibility of helping them to fulfil outstanding contracts. This would not involve taking over Bedford facilities, though Rover Group might take over some technology and product lines.

Austin Rover was the main problem. The company needed to be cleaned up before a partner would be prepared to come in. There were already close ties with Honda. Austin Rover depended on Honda but Honda could at present do without Austin Rover. Honda would probably not be interested in taking 30 per cent of Austin Rover unless there was a pretty clear understanding that they could later increase their stake to at least 49 per cent. The possibility of full control could not be ruled out. There was a need for urgency in pursuing the talks with Honda. The scale of Austin Rover's losses would itself damage confidence in the company and car sales, in turn. The company needed to be able to show that it was both tackling the immediate problems and looking for solutions to secure longer term viability.

It was agreed that Mr. Day should pursue his discussions with Honda. It would be useful if he could make an announcement in some form at the time of publication of the half year figures in late September or early October. One possibility would be for him to say that the company was exploring the possibilities for closer collaboration with Honda. It was also noted that Ford might at some stage wish to renew its interest in Austin Rover, but the discussions with Honda would necessarily take precedence in view of the failure of the discussions with Ford earlier this year and of the need for early progress.

On Land Rover, it was noted that the launch of Range Rover in the United States would be of central importance to the company. There was a substantial risk, but it had to be taken.

The Prime Minister congratulated Mr. Day on the firmness with which he was tackling the serious problems at the Group.

(DAVID NORGROVE)

Miss Catherine Bradley,
Department of Trade and Industry